

FINANCIAL TIMES

Britain and the EU

Thinking the unthinkable

Martin Wolf, Page 13

Conductive plastics

Discovery in need of applications

Technology, Page 10

Chinese banking

Rebirth of the private sector

Page 4

Executive benefits

Wrong to reward downsizing

Peter Drucker, Page 12

France calls for G7-style group to co-ordinate Emu

France proposed that governments signing up to the European single currency should form a club, similar to the Group of Seven of the world's richest industrial nations, to co-ordinate budgetary and economic policies. French finance minister Jean Arthuis said the third and final phase of European economic and monetary union, due to start on January 1 1999, required an "economic policy pole" that would stand alongside the planned European central bank to ensure economic stability. Page 14

N Ireland group warns of spread of IRA campaign

Northern Ireland terrorism threatened to spiral yesterday, with the Ulster Freedom Fighters, the largest Protestant paramilitary group, warning that it had put its operations on full alert. It said it had come to the "considered view" that the IRA was preparing to follow Saturday's Manchester bombing, in which 200 people were injured, by resuming its campaign of violence in Ulster. Page 14; US considers harder line on Adams, Page 8

Lufthansa shares fall 5%: Shares in German airline Lufthansa fell almost 5 per cent after its warning of unsatisfactory business this year was seen as signalling a large loss for the six-months to the end of June. Page 15; Lex, Page 14

EU to start 'open skies' talks: European Union transport ministers gave approval for the European Commission to launch negotiations with Washington on a European Union-US "open skies" agreement to liberalise civil aviation. Page 5

Caution on German growth: The Bundesbank damped hopes of an early resumption of German economic growth, with a cautious assessment that sighted "rays of hope" but saw no clear indications of a breakthrough. Page 2

Walt Disney is to halve its film output in what is seen as a significant step by Hollywood to bring supply, demand and quality of movies into line with market needs. Page 15; Lex, Page 14

In-fighting delays Israeli cabinet decisions: Israeli prime minister-elect Benjamin Netanyahu secured parliamentary majority needed to support his rightwing government but a power struggle within his Likud party prevented him from naming his cabinet. Page 14

Deutsche Babcock, the German engineering group struggling to restructure its loss-making activities, warned it expected annual losses of up to DM300m (\$197m). Page 17; Lex, Page 14

Nigerian parties need 1m members: Political parties which want to be recognised by Nigeria's military government need to have more than 1m members, according to rules to help launch multi-party politics. Page 7

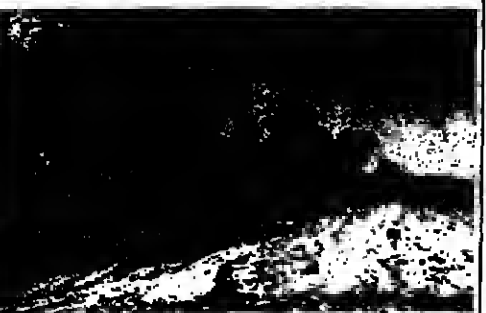
Whitewater leaks anger Clinton: The White House has reacted furiously to leaks of the Senate Whitewater committee report that its Republican majority is to make public today. Page 6

Trade surplus falls 60%: Japan's trade surplus fell by 60.5 per cent to ¥31.6bn (\$2.13bn) in the year to May helped by rising domestic demand for personal computers and semiconductors. Page 4

Disarmament group admits Iraq: Iraq and 22 other countries were formally accepted into the International Conference on Disarmament after a compromise deal to end a three-year stand-off over Baghdad's membership.

Japan leads in aid donations: The US fell to fourth place behind Japan, France and Germany in non-military aid donations in 1995, the OECD said. Japan gave \$14.5bn of aid and the US \$7.3bn. Britain was sixth with \$3.2bn. Page 7

NZ volcano erupts: New Zealand's Mount Ruapehu volcano erupted spectacularly (below), sending steam and ash miles into the sky above the North Island. No one was hurt, but aviation authorities declared a danger zone around the area.



STOCK MARKET INDICES		GOLD	
New York S&P 500	4,842.81 (+0.84)	New York Comex	387.1
Dow Jones Ind Av	5,602.81 (+0.84)	(Avg) \$287.3	(387.1)
NASDAQ Composite	1,208.84 (-1.34)	London:	
Europe and Far East		2025	3,382.20 (384.15)
CAC40	2,113.84 (+1.20)	New York:	
DAX	2,548.12 (-2.71)	2	1,545
FT-SE 100	3,781.5 (+7.9)	Dollar:	
Nikkei	22,245.28 (+44.0)	New York:	
		2	1,910
		DM	1,470
		FF	1,248
		SFr	1,295
		Y	108.85
		London:	
		DM	1,563 (1,537)
		DM	1,217 (1,228)
		FF	1,149 (1,169)
		SFr	1,248 (1,259)
		Y	108.84 (108.72)
		London:	
		DM	2,363 (2,346)
		DM	1,781
		Tokyo close:	¥ 108.26

US LUNDSHIRE RATES		OTHER RATES	
Federal Funds	5 1/4%	UK 3-mo Interbank	5 1/4% (5 3/4%)
3-mth Treas Bill: 1M	5.194%	UK 10 yr Gil	8 1/4% (8 1/2%)
Long Bond	8 1/2%	France 10 yr OAT	10.35% (10.45%)
Yield	7.89%	Barrage 10 yr Bond	87.1% (87.1%)
		Japan 10 yr JGB	5.57% (5.57%)

NORTH SEA OIL (Argued)	
Brent Dated	\$18.75 (17.81)

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Bank of Japan opens probe into record \$1.8bn loss ■ Sumitomo shares fall 16.5%

By William Dawkins and Emilio Terazono in Tokyo, and Clay Harris in London

Sumitomo Corporation lost about a sixth of its stock market value yesterday as the Bank of Japan launched an investigation into the company's record \$1.8bn loss on unauthorised copper dealing. Copper closed unchanged at \$1,980 a tonne on the London Metal Exchange after earlier falling in Asian markets to between \$1,800 and \$1,940, its lowest level since February 1994. The London Clearing House said it would repay about \$300m to LME member firms as a result of an increase in initial margin - the deposit required to make a trade - from today. Sumitomo's shares fell the

daily limit of 16.5 per cent in Tokyo, closing ¥200 lower at ¥1,010. Mining shares and those of other Japanese trading companies involved in copper trading also fell, but by only a fraction of the decline at Sumitomo. The central bank is in contact with financial institutions doing business with Sumitomo and with foreign monetary authorities, an official said. He believed there was no chance of credit risk spreading to financial institutions linked to the group, including its main bank, Sumitomo Bank. Sumitomo will this morning face investment institutions in Tokyo in an attempt to repair the damage to its credibility. It is not expected to divulge any new financial information.

"Wild ride" swelled Page 7
Lex Page 14
World stocks Page 34

Moody's became the second credit rating agency - after Standard and Poor's on Friday - to downgrade Sumitomo's debt. Mr Shinji Okabe, vice-president of Moody's Japan, said he would re-examine trading companies' risk management systems although he was confident that existing ratings were sound. Metal dealers in Tokyo voiced disbelief at Sumitomo's claim that the trader concerned, Mr Yasuo Hamanaka, was the only one to know about the unauthorised trades. Dealers at two other trading

companies said that trades of that size - up to ¥2,000bn per year according to Sumitomo - could only have taken place with the help of Mr Hamanaka's superiors and with outside companies. The London Metal Exchange warned Sumitomo twice, in 1991 and 1993, that Mr Hamanaka was carrying out fictitious transactions, but internal company inquiries failed to detect them, according to the Nihon Keizai Shimbun economic daily. Sumitomo is regulated by the Ministry of International Trade and Industry. The Bank of Japan also has responsibility to watch for any secondary losses to financial institutions. A MITI official said there was no evidence that Japanese law had been infringed.

The Sumitomo trades are the subject of two investigations in the UK - a criminal inquiry by the Serious Fraud Office and a regulatory probe co-ordinated by the Securities and Investment Board, the country's chief financial watchdog - in co-operation with Japanese authorities and the US Commodity Futures Trading Commission. Sumitomo was not regulated in the UK, being neither a member of the LME nor a firm authorised by the Securities and Futures Authority, both of which report to the SIB. Half of all UK dealings in copper derivatives involve non-traded contracts outside the LME, and are not subject to direct regulation.



Israel PM-elect Benjamin Netanyahu (left) and opposition leader David Levy in talks as the Likud leader attempted to finalise details of his cabinet. Report, Page 14; Sweeping reforms, Page 7.

EU spells out deal to end UK beef ban action

By Lionel Barber in Rome and George Parker in London

Britain faced mounting pressure yesterday to abandon its policy of non-co-operation in Europe and accept a face-saving deal to end the beef crisis in time for the European Union summit in Florence on Friday. At a pre-summit meeting in Rome, EU foreign ministers and the European Commission spelled out stark terms for the lifting of the worldwide ban on British beef exports imposed because of fears of BSE, or mad cow disease. The terms - expected to be set out in a European Commission paper today - offer no quarter to British demands for an early lifting on the embargo of British beef to non-EU countries. In a further blow to Mr John Major, UK prime minister, France called for a heavier cull of cattle suspected of carrying BSE, beyond the 80,000 proposed by the British government and approved by its House of Commons. Mr Malcolm Rifkind, UK foreign secretary, appearing after a

three-hour bargaining session over beef, looked visibly downbeat when assessing the prospects for a deal in Florence. Downing Street said last night it would look at any proposal to increase the extent of the cull "dispassionately", but warned that Britain would only agree if it was justified by scientific advice. One week after being mauled by his European colleagues in Luxembourg, Mr Rifkind again faced angry calls for Britain to scrap its policy of blocking EU business. Mr Jacques Santer, EC president, said there was no question of a "political deal" or a "speculative timetable" to end the EU ban on British beef exports. The issue had to be settled on the basis of scientific facts and rigorous controls to eradicate BSE in Britain. UK ministers are sceptical about the scientific objectivity of EU veterinary officials. But as Mr Rifkind indicated, the Commission's emphasis on science could offer a way out of the crisis. Britain's argument all along has been that "EU governments

Late deal helps US and China avert trade war

By Tony Walker in Beijing and Jurek Martin in Washington

The US and China yesterday reached a last-minute agreement on curbing the abuse of intellectual property rights, averting threatened "tit-for-tat" trade sanctions on billions of dollars worth of goods. Under the agreement, hammered out over months of difficult negotiations, Beijing will strengthen enforcement against piracy and open the way for co-production deals with US record companies, film studios and computer software producers. US President Bill Clinton hailed the pact as "good for American jobs and American businesses" and industry leaders welcomed the breakthrough. US negotiators made improved market access for US producers of information and entertainment products a key element of the agreement. They had also insisted on specific and verifiable measures to combat widespread counterfeiting of compact and laser discs, and CD-Roms.

Washington said it would impose punitive tariffs on \$2bn worth of imports from China if an understanding was not reached by yesterday on implementation of a February 1995 agreement to curb piracy. China threatened counter-sanctions. Ms Charlene Barshefsky, the acting US trade representative, who met President Jiang Zemin after the negotiations, said the deal was "evidence of a desire to ensure that the bilateral relationship is, and remains, mutually beneficial". However, she also accused Xinhua, China's official news agency, of "massive violation" of intellectual property rights in its attempt to regulate the distribution of economic information by western news agencies. The latest negotiations were prompted by US objections that China was not enforcing an accord reached early last year to crack down on copyright piracy. Among the main points of yesterday's agreement were: China would "for the first

Continued on Page 14
Best of difficult task, Page 5

Yeltsin and presidential rival woo defeated poll candidates

By Chrystie Freeland and John Thornhill in Moscow

Russian president Boris Yeltsin yesterday kicked off the second stage of his country's election campaign by attempting to enlist the support of some of the defeated presidential candidates in his fight to keep the Communists out of the Kremlin. Mr Yeltsin, who polled 34.8 per cent of the vote in Sunday's ballot, faces a second round run-off against Mr Gennady Zyuganov, the Communist leader who won 32.4 per cent. Yesterday, Mr Yeltsin met Mr Alexander Lebed, the former army general who has become Russia's most courted politician after his third place finish. Kremlin aides said the two politicians discussed "ways of possible co-operation" and senior presidential allies strongly hinted that Mr Lebed would be offered a leading post in government. But Mr Lebed, who was supported by 14.7 per cent of voters, refused to comment on the talks

and is due to meet Mr Zyuganov later this week. Mr Zyuganov urged the retired officer to join his camp and predicted that no matter what political moves Mr Lebed made over the next few days, many of his voters would swing behind the Communists. "Whatever happens, most of Lebed's votes will go to the national-patriotic bloc," said Mr Zyuganov, who campaigned on a strongly nationalist platform. "This is inevitable as they voted for Lebed's ideology. By spirit and character they are very close to us." Both leading candidates also appear keen to woo Mr Grigory Yavlinsky, the leader of the liberal Yabloko grouping who came fourth with 7.4 per cent. Western governments seemed relieved by the results. US President Bill Clinton said: "This is a very significant thing for Russia to have this election. The Russian people are to be complimented and the Russian leadership is to be complimented for supporting the constitution

and the elective process." Russia's nascent financial markets reacted warmly to Mr Yeltsin's first-round victory, and yields on government bonds fell from their recent yearly highs. Mr Christopher Gruenille, head of research at the Moscow-based United City Bank, said: "Local brokers marked up share prices very strongly this morning but the western demand failed to materialise and the market came off a bit later in the day. Investors are unlikely to stampede into the market on a slim two-point advantage." Mr Yeltsin appears anxious to maximise voter turnout and made a bid to shift the date for the run-off to Wednesday, July 3. The Kremlin is eager to change the date because it fears the usual weekend exodus of wealthy Russians to their summer dachas could help the Communists. Second round under way, Page 2
And so to Lebed, Page 12
Editorial Comment and Observer, Page 15

No incentives, no good sites, no space and no decent football. It's tough down south.

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Russia's second round already under way

John Thornhill finds pointers to election's next stage in the results of the first

In his youth Mr Boris Yeltsin played a dangerous game which he claims taught him an invaluable lesson in boldness of purpose and fleetness of foot.

As lumberjacks floated felled tree-trunks down a nearby river, Mr Yeltsin and his more reckless friends would cross the stream by leaping from log to log. If you hesitated too long a log would spin over and toss you into the water, Mr Yeltsin recalled in his memoirs. The secret was to keep moving and never fear the consequences of a badly-executed leap.

Casting aside his fears, Mr Yeltsin seems to have recovered much of that former agility and audacity in conducting his re-election campaign, visiting 24 cities in less than four months.

Even before the final results of the first round of voting had been published, Mr Yeltsin had already moved to open talks with his defeated rivals to build support for the second round contest against Mr Gennady Zyuganov, the Communist party challenger, to be held next month.

Despite winning the biggest share of the votes in the first round, Mr Yeltsin has a battle on his hands to secure his ultimate victory and must reach out to build a broader anti-communist coalition.

As had been widely forecast, Mr Yeltsin picked up strong support in the wealthy industrial and oil regions and the big cities which have most benefited from his economic reforms.

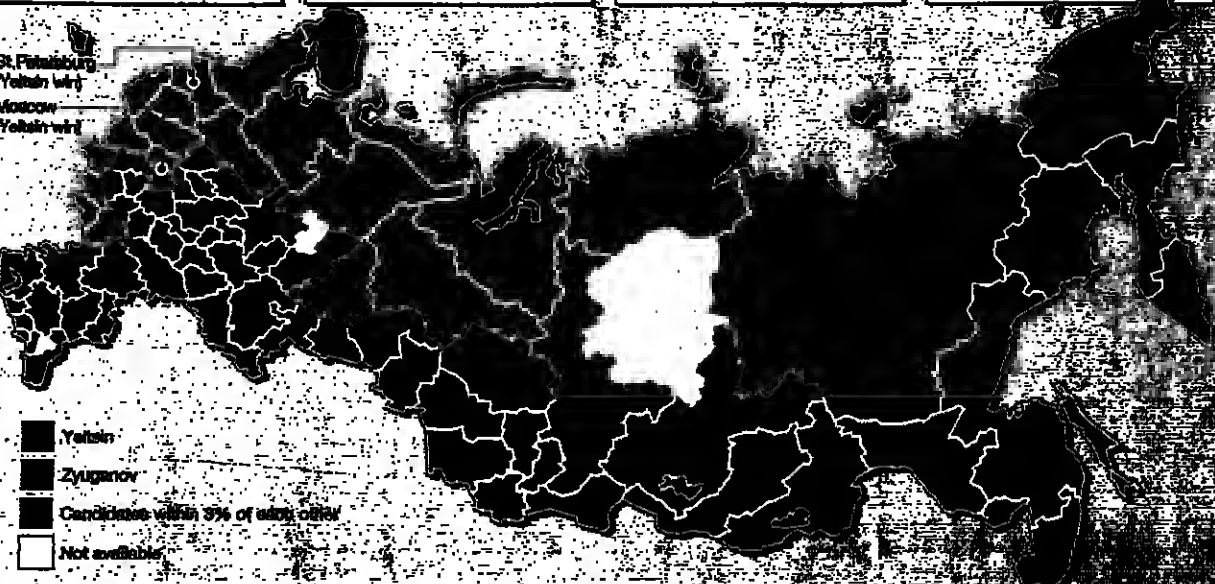
In prosperous Moscow he won more than 60 per cent of the vote at the same time as his political ally Mr Yuri Luzhkov was overwhelmingly re-elected mayor.

Mr Grigory Yavlinsky, the liberal leader of the Yabloko faction, may have siphoned off the votes of young urban professionals and the intelligentsia, who have been appalled by Mr Yeltsin's growing authoritarianism and the conduct of the Chechen war. However, in the final crunch the voters can be expected to back

Zyuganov takes the border regions as Yeltsin conquers the North and Far east

Russia's presidential elections: First round results. The second round will be held in three weeks.

West	South	Central	Far east
The most prosperous, educated and westernised part of Russia, containing the most densely populated western regions supported Yeltsin. But the margins are small, with border regions and a larger part of the agricultural south-west voting Communist. Lebed did well around his former military base in Tula.	The Red Belt, a string of impoverished factory towns and depressed farming regions, gave Zyuganov their support, responding to promises of greater state support, trade protection and slower land reform. But Zyuganov failed to match the big swap his party made here in December's parliamentary elections.	Yeltsin persuaded many oil and diamond workers who voted for Zyuganov and Zhirinovskiy in parliamentary elections to switch sides in regions like Tyumen, Perm and Sakha. Oil prices are up and at least some of the oil companies have recovered from years of decline.	The Far east, which in 1995 helped Zhirinovskiy gain a surprise victory, backed Yeltsin and Lebed instead this time. The Primorsky and Khabarovsk regions, headed by Yeltsin appointees, have managed to stay afloat by engaging in trade with Asia. Lebed did well in the militarised parts of the Far east.



Mr Yeltsin next month. The real damage was done by Mr Zyuganov who trounced Mr Yeltsin in the poorer rural regions and smaller towns in central Russia and the south, while Mr Alexander Lebed, the populist former army commander, picked up strong support in decentralised military districts and the far east.

Mr Yeltsin's aides were yesterday hinting that they would change the style of their campaigning for the second round and directly target these bastions of opposition. Mr Zyuganov's campaign staff are doubtless already setting up photo-opportunities in the muckier parts of the Russian hinterland.

The president himself seems inclined to adopt a confrontational approach running on an even more aggressively anti-communist platform.

"Now after the first round, the situation is different. The choice is simpler: either back to revolutions and upheavals, or forward to stability and prosperity," he said, immediately after the first results became known.

But the danger of running such a hostile campaign is that Mr Yeltsin may alienate many moderate supporters of Mr Yavlinsky and Mr Lebed, who have been urging the creation of a new social consensus rather than stirring up old hostilities.

If he starts throwing too much mud, Mr Yeltsin may also lose the advantage of using the status of his office to remain above the political fray and deter the electorate from voting at all.

For his part, Mr Zyuganov must clearly try to extend his appeal into the centre ground of Russian politics. He can rely on a rockbed of support but is desperate to reach out to the one-third of the electorate

that voted for the eight losing candidates in the first round of the election.

Like Mr Yeltsin, the Communists will initially target Mr Yavlinsky's and Mr Lebed's voters. But Mr Zyuganov may also receive some help from another military quarter: Mr Vladimir Zhirinovskiy, the ultra-nationalist who did poorly in the polls with under 6 per cent of the vote.

Mr Zhirinovskiy appeared to lose many of his supporters to Mr Lebed and remains fiercely opposed to the Communists. But many of Mr Zhirinovskiy's supporters could nevertheless register an anti-Yeltsin vote.

Of the other five candidates, including Mr Mikhail Gorbachev, the last Soviet president, none received more than 7 per cent of the vote. Despite requiring 10 signatures to register as a candidate, these of these candidates won that number of votes and their endorsements may be important symbolically but can be of little use electorally.

Mr Yeltsin's aides believe the key to victory is in mobilising a higher turnout than the 70 per cent that voted on Sunday and can be relied upon to outnumber the electorate more "frenzied and drowsy" as indications. Mr Yeltsin has already appeared at a series of rock concerts to entice young voters and has been pressing home the message "Vote or Lose". Many more such events are bound to be staged in the fickle regions.

Mr Sergei Filatov, the head of Mr Yeltsin's re-election committee said: "If we had got maximum voter turnout on June 16, the gap between Yeltsin and Communist party leader Gennady Zyuganov would have been bigger."

As part of the plan to increase the turnout, Mr Yeltsin's team are pressing for the second round to be held on Wednesday July 3 which will be declared a national holiday. They fear that many pro-Yeltsin voters are out at their country dachas at the weekends when elections are traditionally held and would not make it back to the cities in time to vote.

Mr Yeltsin's aides also seem relieved that one other potential distraction will be out of the way next month. They blamed the Russian football team's disappointing 2-0 loss to Germany in the European championship in England for "demoralising" potential voters. The coach's criticisms of his players lack of "moral fibre" could, some might say, have been equally applied to millions of Russian voters who were slumped in front of their television sets instead of heading out to vote.



Lebed: Yeltsin and Zyuganov are fighting for his 11m votes

General Lebed: kingmaker in the making?

By Chrystie Freeland in Moscow

According to his adoring troops in the 14th army, Mr Alexander Lebed, a surprise third in Sunday's presidential poll, has "the physique of Arnold Schwarzenegger and the brains of Albert Einstein."

Less worshipful observers might demur, but no one can argue that over the next three weeks the gravely-voiced former general will need the constitution of an ox and the mind of a chess grand-master as he faces choices which could determine the fate of the entire nation.

It is a position that Mr Lebed has no qualms about occupying. Untroubled by false modesty or self-doubt he is the sort of man who can answer a question about his strong showing in the polls with the one-liner he used on Russian television last night: "It is because I am a born winner."

The interviewer politely observed that this was not quite true - with some 15 per cent of the vote, Mr Lebed came in a distant third. Unfazed, he said this was just a start and that eventually he expects to win the ultimate prize. Independent observers are less confident that one day he will rule the Kremlin, but many believe that the man who, less than a year ago was driven from his obscure command in the north-east corner of Moldova over a disagreement with the ministry of defence, has today become the kingmaker of Russian politics.

With just a few percentage points separating Russian President Boris Yeltsin and Mr Gennady Zyuganov, the Communist candidate, in Sunday's ballot, as they prepare for a run-off sometime over the next few weeks, both leaders are hungrily eyeing the 11m voters who backed Mr Lebed.

Mr Zyuganov personally appealed to him to join his team yesterday and senior communists say Mr Lebed could demand almost any position in a Communist administration.

But the president has made the most aggressive effort to woo the new darling of the country's nationalists. Within hours after polls closed on Sunday, Mr Yeltsin's aides were predicting an alliance with Mr

Lebed and yesterday afternoon the former general was in the Kremlin being offered a seductive range of posts within the Yeltsin administration, including a newly invented position which would give Mr Lebed broad authority over the crucial power ministries: defence, the ministry of the interior, the re-ramped successors to the KGB.

Mr Lebed seems tempted. But if he does take the bait it is far from certain that his supporters will automatically follow him into the presidential fold.

Some Yeltsin strategists say Mr Lebed and his voters are natural allies for the government but the reality is much less clear-cut. As his buoyant showing in the Far East, a traditional stronghold for Mr Vladimir Zhirinovskiy, Russia's ultra-nationalist, suggests, many of Mr Lebed's supporters appear to be the relatively poor and uneducated voters who in past elections have expressed their inchoate rage with the current world order by backing a politician who speaks fondly of Hitler and thinks Russian troops should conquer India.

Although Mr Lebed's election programme is surprisingly liberal on the question of market reform - he describes privatisation, price liberalisation and financial stabilisation as "crucial and unavoidable" - he has not been shy of playing to the darker instincts of his angry constituency.

Even Mr Yeltsin, who forced Mr Lebed into a humiliating resignation from his job last summer, has come in for a fair share of abuse during the heat of the campaign.

"All of today's democrats are yesterday's communists, and high ranking ones at that," Mr Lebed said earlier this spring. "This is more true of Yeltsin than anyone else."

If he does a deal with the Kremlin Mr Lebed's less committed supporters may decide he is no better than the slippery establishment politicians he has attacked on the hustings. In their disgust, these voters may decide not to go to the polls at all. Or they might back the only force whose attack on the current regime has been unremitting: Mr Gennady Zyuganov and the Communist party.

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EUROPEAN NEWS DIGEST

Sicilian snub for Berlusconi

The Forza Italia movement of Mr Silvio Berlusconi suffered a big loss of support in Sunday's poll to elect a new regional government for Sicily.

Only two months after Italy's general election, Forza Italia's share of the vote among the 4.4m Sicilian electorate was halved to 17 per cent. Mr Gianfranco Micciche, the regional organiser of Forza Italia, resigned after the result was announced.

Support switched to the two moderate parties in Mr Berlusconi's right-wing alliance, formed from part of the now defunct Christian Democrats - the Christian Democrat Union (CDU) and the Christian Democratic Centre (CCD).

The switch in voter allegiance did not affect the overall result: the Berlusconi-led rightwing alliance gained a clear majority, with the four main parties in the alliance winning more than 50 per cent of the vote and 49 of the 90 seats in the parliament.

The parties stood separately to take advantage of Sicily's electoral laws using proportional representation. None of the 51 groups representing autonomy platforms for Sicily did well, the best being Noi Siciliani (We Sicilians) with 1.5 per cent. Support for the reformist anti-Mafia party, La Rete (The Network), which had established a strong presence in Sicily since the last regional vote in 1991, was more than halved to 3.5 per cent.

Robert Graham, Rome

VW recalls 950,000 vehicles

Volkswagen yesterday announced the recall of 950,000 of its cars to test for potential faults in the engine cooling system.

The German carmaker said the recalls affected Golf and Jetta models built between 1988 and 1989 with a 1.3 litre engine, and Passat and four-cylinder Corrado models built in 1988 and 1989. About 500,000 of the cars affected are in Germany itself.

Volkswagen last year announced a recall of about 1.2m Golf and Jetta models in Germany and another 700,000 cars in western Europe, also because of suspected faults in the cooling and heating systems.

The costs are paid for by Volkswagen, which has built up special reserves to cover recalls. The company yesterday gave no precise cost details, but indicated that the costs could run to about DM100 (\$65) per car or slightly less, which would suggest a total of up to DM95m. The stock market reacted to the news, by marking VW shares down DM8.25, or 1.5 per cent, to DM53.50.

Wolfgang Munchau, Frankfurt

Nastase fails in mayoral race

Mr Ilie Nastase, the former tennis star, has failed to become Mayor of Bucharest, his home town, winning just 43 per cent of the vote in a two-way run-off, according to final results for the capital released yesterday.

Mr Victor Corbes, a former trade union leader and the candidate of the Democratic Convention (CDR), Romania's main opposition group, extended his 10-point first-round lead over Mr Nastase, winning 57 per cent of the vote in Sunday's poll.

The CDR also beat the governing Party of Social Democracy (PDSR), which Mr Nastase represented, in five out of six of the run-offs for district mayors in the capital, where 11 per cent of the population lives. Partial results from the rest of the country suggested the governing party had also been defeated by the CDR and other opposition parties in most of the few cities or large towns.

Virginia Marsh, Bucharest

Swiss money laundering moves

The Swiss cabinet yesterday approved a draft law to combat money laundering, including a controversial provision requiring financial managers to report suspicious transactions. The legislation, if adopted by parliament, would force all money managers to keep a paper trail on accounts and allow assets to be frozen pending an investigation. A key change under the legislation would be in the law on reporting of suspicious accounts.

Switzerland in 1994 curtailed the country's banking secrecy for the first time with a law allowing banks to report suspicious customers to police. But the new law would go further by requiring bankers, asset managers and lawyers to report money coming from the drugs trade or other crimes.

The draft bill would also put legal responsibility on any person or company whose business is managing or looking after money. This provision includes investment funds, life assurance companies and asset managers who are presently outside the range of money laundering laws.

Reuter, Bern

Ruling party wins Albania re-run

Albania's ruling Democratic party has won a partial re-run of the earlier disputed general election, officials said yesterday. The fresh round of voting in 17 electoral districts confirmed a landslide victory for the government. However, most opposition parties, including the main opposition Socialist party, boycotted the polling, which was organised after the first ballot was plagued by irregularities.

The country's electoral commission announced yesterday the ruling party had won in all the 17 districts contested on Sunday. International observers and the European Union backed opposition claims of manipulation and had urged a partial re-run. But it is still unclear whether Sunday's vote will satisfy their request.

Marianne Sullivan, Tirana

Brussels seat belt rules for buses

The European Commission adopted rules yesterday requiring manufacturers to fit all new coaches and minibuses with seat belts for all passengers.

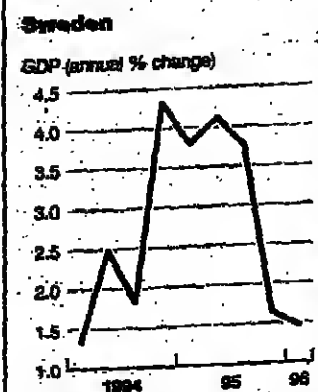
The rules, which will be phased in by the year 2001, require three-point belts for minibuses and two-point belts and energy-absorbing seats for large coaches, the Commission said.

The legislation, which amends existing EU rules on seat belts - implemented in the wake of a series of fatal crashes. It also requires manufacturers to fit labels on cars warning that rear-facing baby chairs should not be used in seats protected by air bags.

Reuter, Brussels

ECONOMIC WATCH

Sweden's GDP up 1.4 per cent



Sweden's gross domestic product rose 1.4 per cent in the first quarter of 1996 on a year earlier, Sweden's central statistical bureau reported. In the first quarter of 1996 private consumption of goods increased by 0.9 per cent on the first quarter of 1995, due mainly to an upturn in consumption of food and energy. Gross fixed capital formation rose by 11.2 per cent, with industries increasing their capital formation by 14.9 per cent on a year earlier. The upturn in GDP is also explained by a growth of net exports by SKr6bn (\$96m) at current prices, it said. Production in industry increased by 1.9 per cent and total hours worked rose by 1.5 per cent, the bureau said.

APX, Stockholm

Finland's industrial output in April was up 0.9 per cent from a year earlier, adjusted for the number of working days. Industrial output in the first four months was up 0.5 per cent from a year earlier.

Spanish exports, especially to non-EU countries, picked up in April with an increase of more than 17 per cent.

Cyprus moves up international agenda

President Clerides has been encouraged by a recent flurry of world interest. Edward Mortimer reports

Yesterday the White House, tomorrow No 10 Downing Street, later this week the European Union summit in Florence.

President Glafcos Clerides of Cyprus is covering all bases in his effort to move the Cyprus problem back up the international agenda - encouraged by a recent flurry of interest, as the US, United Nations, the EU presidency, and the UK (Cyprus's former colonial master and a guarantor of its independence) have all appointed special representatives to deal with the issue.

Mr Clerides is the fourth Greek Cypriot leader to wrestle with the problem since 1974, when Turkish troops landed on the island and created an ethnically homogeneous Turkish zone in the north. Even before that, as negotiator for the island's first president, Archbishop Makarios, he had many meetings with his Turkish Cypriot opposite number, Mr Rauf Denktaş, now president of the self-proclaimed "Turkish Republic of Northern Cyprus".

But Mr Clerides believes, as do many international observers, that a new turning point is approaching. Last year the EU agreed to open membership negotiations with Cyprus six months after

the end of the current inter-governmental conference - probably in early 1998.

EU member states have made it clear, as has the Commission, that they would much prefer to negotiate with a reunited Cyprus. But they all recognise Mr Clerides's government, elected by the Greek Cypriot majority, as the only legitimate one on the island; and they hope the fear of negotiations going ahead with a purely Greek Cypriot government will encourage the Turks to make a serious effort to settle the conflict within the next 18 months.

So far there is little sign of that happening. Mr Boutros Boutros Ghali, the UN secretary general, has had talks with both Mr Denktaş and Mr Clerides within the last two weeks, but has not found enough common ground to justify bringing them together for a new round of negotiations.

Mr Clerides himself says he expects no immediate results from his present trip, because there is no stable government in Turkey.

"Even if I credit Denktaş with willingness to be flexible," he asks rhetorically, "without a Turkish government to cover him, is he likely to make any concessions? My



President Clerides: believes new turning point is approaching

philosophy is that Ankara has to decide, not Denktaş - though Denktaş can be a nuisance if they try to force him to go further than he wants."

In 1979, both sides agreed on the main lines of a solution: the island should remain "bi-zonal" and bi-communal, with a federal constitution based on the political equality of the two communities. But they remain divided on powers and composition of central government, the size and shape of the two zones, the right of Greek Cypriots to return to homes in the Turkish zone, and security arrangements.

Mr Denktaş insists Turkey retain the right to intervene if Turkish Cypriot rights are not respected, while Mr Clerides prefers a multinational force stationed on the island, with a UN mandate to intervene if either side reneges on the agreement.

Mr Denktaş now blames the EU for accepting a membership application from a government he says is illegitimate, because

it is composed exclusively of Greek Cypriots. He has rejected Mr Clerides's offer to include Turkish Cypriots in the negotiating team, and threatens to hold a referendum in the north on the proposition that Cyprus should not be allowed to join the EU before Turkey - which will be well into the next century, if at all.

Turkey for its part has threatened to annex the north outright if the EU admits the south - a threat most diplomats discount, given the high financial and political costs Turkey would incur.

The EU meanwhile, through its ambassador on the island, Mr Gilles Anouh, has mounted a campaign to convince Turkish Cypriots of the benefits they would reap from EU membership, both in economic terms and by having their rights and political status entrenched in EU law.

This cuts no ice with Mr Denktaş but many Turkish Cypriots seem interested. They blame Turkey for allowing their economy to stagnate and driving down their living standards by importing cheap labour from the mainland.

former minister in Mr Denktaş's government, says he fears that if Cyprus joins the EU without a political settlement there will soon be no indigenous Turkish Cypriots left. Once entitled to EU citizenship, he says, most would seize the chance to emigrate to western Europe.

Twenty per cent of northern Cyprus is set aside for military purposes, and there is one soldier for every four civilians. The UN, which maintains a peacekeeping force in the narrow strip separating the two zones, believes both these figures are world records.

In the south Mr Clerides is trying to redress the balance by spending \$2m a day on arms. US President Bill Clinton is likely to have told him, at their meeting in Washington yesterday, that this policy only raises tension and the risk that Turkey would take pre-emptive action there in the event of a clash with Greece.

Mr Clerides will counter by reminding Mr Clinton of his promise to Greek American voters four years ago he would do something to help solve the Cyprus problem. Mr Clinton will hardly need reminding, since his energies are already focused on getting himself re-elected in November.

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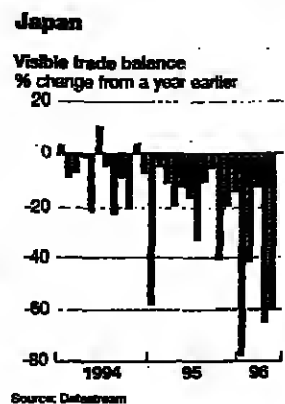
Japanese trade surplus falls for 18th month

By William Dawkins in Tokyo

Rising domestic demand for personal computers and semiconductors was a factor in a 60.5 per cent decline in Japan's trade surplus in the year to May, the 18th consecutive month of decline.

The trade gap reached ¥231.69bn (\$2.18bn), slightly higher than the market was expecting, according to preliminary data from the finance ministry yesterday.

Officials expect the surplus to remain on a declining trend, though many private sector economists in Tokyo believe that the rate of decline will



Source: DataStream

Japanese manufactured goods in overseas markets. The dollar was yesterday trading in Tokyo at around ¥109, or about 22 per cent below its level a year ago.

Exports rose a vigorous 14.2 per cent to ¥3,405.9bn in May, but that was less than half the reported pace of import growth, 32.6 per cent to ¥3,174bn.

The underlying pace of import growth is slightly slower than that, because the headline figure is distorted by the 30 per cent rise in oil prices over the period. Up to 40 per cent of Japanese imports - crude and refined products - are linked to movements in oil prices.

Even so, Japan's recovering economy showed robust demand for finished goods, nearly 60 per cent of the total, last month.

Imports of office equipment - mainly computers - rose by almost three quarters, while imports of electronic devices increased by 48 per cent.

Unusually, the surplus declined with all three of Japan's main trading regions. The trade gap with the US and with the European Union both fell by nearly 40 per cent in May. The gap with other Asian nations fell by 24.4 per cent, the second month in a row, to ¥336.05bn. It was more than double Japan's ¥167.7bn

surplus with the US.

Reuter adds: Japanese police raided the offices of one of the failed mortgage companies at the centre of a bad debt scandal yesterday on suspicion of making unlawful loans.

The raid on the offices of the Nippon Housing Loan Company was the first such action against one of the mortgage companies, or *jusen*, which are expected to be liquidated through government legislation.

An official at Nippon Housing declined to comment. Police officials also refuse to comment on the reports.

The reported raid comes

as key financial bills, including one needed to implement a controversial scheme to wind up the failed mortgage companies, were likely to become law today.

There has been a public anger over the scheme because it calls for the use of ¥688bn (\$6.25bn) of taxpayers' money to help clear up the mess left by over zealous lending by private financial enterprises in the 1980s "bubble" era of inflated asset prices.

Nippon Housing is the biggest lender among the seven *jusen*, with outstanding loans of more than ¥2,000bn (\$18.5bn), of which 53 per cent are said to be irrecoverable.

S Korea sees slower growth in production

By John Burton in Seoul

Production growth in most of South Korea's main industries will slow during the second half of 1996 because of weakening export demand, a government research institute warned yesterday.

The gloomy report by the Korea Institute for Industrial Economics and Trade (KIET) underscored that the economy appears to be headed for slower growth during at least the next 12 months.

Although most analysts predict that gross domestic product will increase by 7 per cent this year, the growth rate could fall to 6 per cent or lower in 1997 as industries cut back on investments.

fall in prices for semiconductors, South Korea's single biggest export product, will mean total production of electronic parts will increase by 10 per cent in 1996 against 50 per cent last year.

Steel and petrochemicals are also suffering from falling international prices.

The output of the car, shipbuilding, consumer electronics, steel, petrochemicals, electronic components and textile industries will increase by less than 10 per cent compared with mainly double-digit growth last year.

Car production will be affected by a saturated domestic market and a slowdown in export growth to 11 per cent against 41.5 per cent a year ago.

The KIET, however, noted there would be strong growth for computers, while telecom equipment makers would benefit from a recent expansion of domestic telecom services.

Machinery exports are also expected to climb by 23 per cent during the second half of 1996 due to increased orders from China, Indonesia and Malaysia.

But production will slow in a number of key areas. A sharp

This reflects the growing competitiveness of Japanese car companies due to a weaker yen. South Korean shipbuilders are also losing orders as Japanese rivals for the same reason.

Consumer electronics are sniffling from sluggish demand both at home and abroad and are threatened with growing cheaper imports from south-east Asia.

Nimble newcomer appears on China's banking scene

Its aim is to be among the country's biggest in 10 years' time

A pusy newcomer has appeared on China's banking scene. "Our goal is to be among the biggest in 10 years' time," says Mr Jing Shuping, chairman of the China Minsheng Banking Corporation, the country's first post-revolutionary private-sector bank.

That is a tall order. With 130 staff and three offices, the fledgling institution is dwarfed by state-sector giants, with staff in the millions and thousands of branches.

But Mr Jing is well versed in upheavals to the established order. The fact he finds himself at the head of a bank owned 80 per cent by private-sector companies underlines the potential now opening to China's business sector as a result of economic reform.

"Thirty years ago, I would never have foreseen such changes," says Mr Jing, who started out in chemicals and cigarettes before China's 1949 revolution. Unlike many of his Shanghai fellow businessmen, he resisted a move to Hong Kong. "I went to look with my brother for a few weeks but we thought we would be eaten by bigger fish," he says.

The result was a harrowing

period during the Cultural Revolution. Dubbed a "reactionary capitalist", he spent two years labouring on a remote farm in central China living in quarters he built himself. His fortunes and his Shanghai home restored by the economic reforms launched in the late 1970s, he is now labelled an entrepreneur.

The Minsheng Banking Corporation (the People's Livelihood Bank) is designed for kindred spirits. "Financial services rendered by existing state-owned banks to the non-state sector are limited," says the bank's launch document. In a move to help remedy the problem, Mr Zhu Rongji, China's reformist vice-premier for economic affairs, gave Minsheng the green light. "He described it as an experiment, to get the ball rolling," says Mr Jing.

That was in June last year. The doors opened for business in January, with capital of ¥10bn (\$188m) and 89 shareholders drawn from more than 200 applicants. The highest include Yitong, a Guangdong-based trading and industrial concern, which has just under 9 per cent of the bank's shares. Foreign investors, including

the Asian Development Bank, have expressed interest. But this would breach regulations allowing Minsheng to conduct business in renminbi, the domestic currency.

So far, the bank has extended loans of about ¥500m, mainly in the form of working capital to manufacturing companies. The aim is to achieve loans of about ¥1bn by the end of the year, with total assets of more than ¥1bn. Customers include staff from the foreign ministry, situated down the road from Minsheng's central Beijing office.

Part of the planned growth will come from new branches. Minsheng has received approval to open in three more cities this year: Shanghai, Guangzhou and Chengdu. Other provinces are pressing for the bank's presence.

However, staff skilled in analysing credit are a rare commodity, while vested interests in the industry obstruct the emergence of rivals. Citic Industrial Bank, the banking arm of the Citic investment group, which Mr Jing also helped create, cites delays in opening new branches.

Minsheng is smaller than Citic, which might help explain the swift authorisation for new outlets. But it has some strong cards to play in its expansion. The new bank is not saddled with bad loans to state enterprises, a burden which poses serious problems for the state-sector banks. Nor is it obliged to provide housing or medical care for its staff.

As a nimble newcomer, the bank can exploit business areas which open up with economic reform and development. Mortgages for China's rising ranks of home-buyers are one area under consideration. On the international front, Minsheng has received a licence for foreign exchange transactions and is negotiating correspondent banking agreements with foreign giants such as Deutsche Bank and Chase Manhattan.

If Minsheng plays its cards right, and if Mr Jing is correct that China's economic reforms cannot be reversed, then his bank, one day, just might rank among them.

John Ridding, Peter Montagnon and Tony Walker



Jing Shuping: his fledgling bank has set itself a tall order

Kim seeks to speed reform and state sell-offs

By John Burton

Frustrated by the slow pace of privatisation, South Korean President Kim Young-sam yesterday urged that the reform of state-run industry be accelerated.

Mr Kim has ordered that a new plan for the privatisation and managerial reform of state companies be completed by the end of August to prepare the enterprises for increased international competition.



President Kim: frustrated by the slow pace of reform

The Korean state sector includes the country's leading steel, telecom, power generation, gas and tobacco companies, most of which are highly profitable due to their near-monopoly status.

The government announced an extensive \$7bn privatisation programme in 1993, but its implementation has fallen behind schedule due to a weak stock market and concerns that the country's main industrial groups, or *chaebol*, would strengthen their economic dominance by taking over the state enterprises.

The telecoms sector, for example, is being opened to foreign competition in 1998, while sales of foreign cigarettes are beginning to challenge the market dominance of the state tobacco company.

However, the administration must still find solutions to several problems that have bedevilled the privatisation process.

One is the reluctance of government agencies, such as the finance and industry ministries, to give up control of state-run companies.

There is also opposition among public sector workers to privatisation because of fears that it could lead to job losses.

Employees at Korea Telecom, for example, have threatened to strike to protest at its planned privatisation.

Moreover, a rush of share issues by state companies could weaken the already fragile Seoul bourse by soaking up capital liquidity in the market.

An alternative would be for the government to sell state companies to private enterprises, but the *chaebol* are the only ones considered to have the financial resources to buy them. This would run counter to the government's policy of reducing the *chaebol*'s economic power.

However, Mr Koo Boh-yeung, the senior presidential economic adviser, suggested that the government was considering other options, such as selling state companies to consortia of private concerns instead of single corporate buyers.

Mekong scheme outline agreed

By James Kynge in Kuala Lumpur

Ministers from 11 Asian nations yesterday agreed on a framework jointly to develop the Mekong river basin, which links Thailand, Laos, Vietnam, Cambodia, Burma and south western China.

The framework, broadly phrased to ensure unanimity among participants, formalises a common ambition to build infrastructure, develop agriculture and tourism, and boost trade and investment in the resource-rich but underdeveloped region.

The scheme's centrepiece is the proposed construction of a railway from Singapore to the south western Chinese city of Kunming, Malaysia, which will head a committee on building the railway, announced that it would put up \$22m (US\$900,000) for a feasibility study to determine its optimum route.

The railway's route is a subject of argument. Laos, a landlocked state, has pushed hard for the route to run through its capital, Vientiane. Burma is also keen that the railway

should traverse its territory. Other countries argue that such detours would mean delays, lost efficiency and higher transport costs.

Thailand was appointed head of another committee on raising funds for all projects to be undertaken under the Mekong development plans.

Funding would be sought from the private sector, donor nations and international agencies, a compromise on an earlier proposal that the 11 core member countries each contribute to a Mekong Development Fund.

Laos, Cambodia and Vietnam had expressed reservations about such contributions, said officials at a meeting of the 11 core members yesterday (Brunei, Cambodia, China, Indonesia, Laos, Malaysia, Burma, the Philippines, Singapore, Thailand and Vietnam).

However, officials said privately that ultimately it was likely that Japan and the Asian Development Bank would be the main sources of funds, along with the wealthier core members such as Singapore, Malaysia and Thailand.

N Korea economy shrinks by 4.6%

The North Korean economy contracted 4.6 per cent in 1995, the sixth consecutive year of decline, according to an estimate by South Korea's central bank yesterday. The fall in economic activity reflected sluggish industrial production caused by a continued shortage of raw materials and energy, combined with poor harvests because of natural disasters such as flooding.

The Bank of Korea in Seoul estimated North Korea's gross national product had shrunk 25 per cent since 1989, with its nominal gross national product of \$22.8bn only one-twentieth the size of South Korea's economy. The country's central bank predicted that North Korea would continue to slip down the global economic table because of deep structural problems caused by its traditional isolation. Its total trade volume amounted to only \$2bn in 1995. North Korea last year ranked 60th in the world in terms of nominal GNP and 100th in per capita income at \$57.

Thai bank licences proposed

Thailand's central bank has recommended that Mr Bodh Guanaratana, the finance minister, award at least three new domestic banking licences to competitors led by Thai Development, General Finance & Securities, and MBF Property and Development. They will be the first full commercial banking licences awarded since 1995.

SITCA Investment and Securities and the War Veterans Organisation of Thailand were disqualified for not meeting application criteria. The third unsuccessful applicant, First City Investment, was not recommended by the central bank, which questioned the ability to set up a strong institution as most of the consortium's partners rely on credit from the state-owned Industrial Finance Corporation of Thailand.

The banking licences must be approved by the Thai cabinet. Finance ministry officials have held out the possibility of allowing the disqualified groups to submit new applications before the minister presents his final proposal to the cabinet.

Volcano disrupts NZ tourism

Four airports were closed and businesses disrupted yesterday in one of New Zealand's busiest tourist destinations, after a large area was blanketed in ash following a volcanic eruption. A vast ash plume spread north-east from Mt Ruapehu in the centre of the North Island, hitting the tourist centres of Taupo and Rotorua. No one was hurt.

The ash was at least 30m deep and falling heavily. One resident said that by midday, cars were driving in darkness in Taupo, the town on the northern side of Lake Taupo, which today is still reported. "You couldn't breathe out there, it's horrible. It's in your hair and mouth," she said. Air space around the mountain from Rotorua to Whakatane in the north east was declared a danger zone and aircraft were warned to stay away from the black clouds.

Challenge to euthanasia law

An 11th-hour legal challenge to controversial voluntary euthanasia legislation in Australia's Northern Territory was lodged in the territory's Supreme Court yesterday. The legislation would permit doctors to assist terminally ill patients to die (subject to fairly stringent conditions) and is due to come into force on July 1.

The Northern Territory would be one of the first places in the world to make voluntary euthanasia legal. But court staff confirmed yesterday that the Northern Territory branch of the Australian Medical Association had lodged documents opposing the law, and a hearing has been set for Friday.

The Northern Territory government has said it will fight any attempts to seek an injunction to prevent the legislation coming into effect.

NATIONAL BANK OF GREECE

RECRUITMENT OF SPECIALISED PROFESSIONALS

The National Bank of Greece invites applications for twelve positions of specialised professionals. The applicants should have an excellent knowledge of English and Modern Greek and should be born after January 1st, 1958. Knowledge of a third language is an advantage.

A. POSITIONS AND ACADEMIC QUALIFICATIONS

1. **Macroeconomic and Monetary Analysis - Econometrics**
One position in Econometrics and modern quantitative methods of Analysis and Forecasting.
One position in Macroeconomic Theory and Policy.
One position in Monetary Theory and Policy, and Domestic and International Financial Markets.
Applicants should have a Ph.D. degree in the above fields, a record of publication in established international academic journals, previous academic/professional experience, and an excellent background in economic models and corresponding software packages.
2. **Portfolio Management, International Money and Capital Markets, Banking Theory and Policy**
Four positions in Finance, Financial Derivatives, Foreign Exchange, Money and Capital Markets, Theory and Practice of Portfolio Management, Investment Banking, Theory and Practice of International Banking and Finance.
Applicants should have a Ph.D. degree in the above fields, a record of academic publications, previous academic/professional experience and an excellent knowledge of economic models and corresponding software packages. Equal consideration will be given to applicants with a two-year MBA or MA or equivalent degree, significant previous professional experience, strong quantitative skills and excellent knowledge of software packages.
3. **Financial and Administrative Accounting, Analysis and Management of Financial Risks**
Three positions in Balance Sheet and Indices Analysis, Budgeting, Financial Risk Management, Corporate Finance.
Applicants should have a Ph.D. degree in the above fields, previous professional experience and an excellent background in economic models and software packages. Equal consideration will be given to applicants with a two-year MBA or MA or equivalent degree, significant previous professional experience, strong quantitative skills and excellent knowledge of software packages.
4. **Auditing**
One position in International Auditing and International Accounting.
One position in Bank Supervision and International Banking Controls and Procedures.
Applicants should have a two-year MBA or MA or equivalent degree and professional experience. For International Auditing, fluency in a third language, besides Greek and English, would be an advantage.

B. INTERVIEW

Shortlisted candidates will be interviewed by a Selection Committee in Athens, at a time and place to be notified to them by letter. Successful candidates shall be offered a three-year contract and a satisfactory remuneration package depending on their overall qualifications and experience, with the possibility of permanent employment after the three-year period.

C. APPLICATION PROCEDURE

Candidates are invited to submit:

- (i) a letter explaining which position they wish to apply for
- (ii) a curriculum vitae with their address and phone number
- (iii) three reference letters from previous employers or university professors
- (iv) copies of university degrees and transcripts
- (v) copies of their most important publications, if any.

Applications and other supporting documents may be sent by registered mail to:

NATIONAL BANK OF GREECE, S.A.
PERSONNEL DIVISION
RECRUITMENT DEPT. 4-B-31
(For the attention of Mrs. Gournas)
Re: SPECIALISED STAFF RECRUITMENT
86, Eolou Street, Athens 115 23 - GREECE
Tel: +301-334.1321 or 324.1053
Fax: +301-321.9978 or 324.7798

The application should be postmarked no later than Monday, July 1, 1996.

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مكتبة الانجلى

Tony Walker assesses the US deal with China on protection of intellectual property

Barshefsky makes best of difficult task

Ms Charlene Barshefsky, the acting US trade representative, last night hailed the Sino-US agreement to curb intellectual property rights abuses as an important step forward, saying it would result in "concrete and tangible action" by the Chinese to stamp out widespread counterfeiting.

She contrasted the agreement reached yesterday with last year's framework arrangements which had established the parameters of enforcement.

In February last year, however, Ms Barshefsky also trumpeted what was described as a "breakthrough" agreement with China on enforcement and market access. In the event, Chinese enforcement efforts were limp - industry representatives said the problem worsened - and progress on market access was "nil", as Ms Barshefsky later acknowledged.

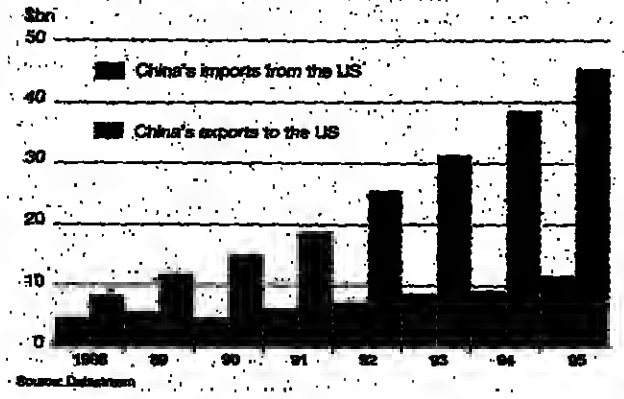
On the face of it, yesterday's agreement, reached as a deadline approached for the imposition of sanctions, does represent progress, although how effective it is will be determined by China's willingness to live up to its commitments. On this, its record is at best dubious.

Ms Barshefsky and her team of negotiators, who no doubt were under pressure from Washington to come up with an agreement with "teeth", appear to have made the best of a difficult job. Securing Chinese agreement to close 15 plants with capacity to produce 30m-50m units of such items as compact and laser discs and CD-Roms represents an advance.

A basis for agreement



- Improved market access for US goods
- Police enforcement of laws to halt copyright theft
- Better border controls
- Formal monitoring system with verification of results
- Stringent measures to identify counterfeit producers and put them out of business



A ban on new CD factories and seizure of machinery and material used to manufacture pirate items should also reinforce the message to counterfeiters that life will become more difficult, although it will take weeks to assess whether circumstances really have changed on the ground.

Until the US threatened sanctions earlier this year, pirate producers operated with relative impunity under the noses of the authorities in some 34 factories, most of them in Guangdong province. China's undertaking to close

CD "distribution markets" and "laser disc showing rooms" where pirated films are shown for an admission fee also accords with the spirit of the latest agreement, but again this measure will be difficult to enforce in a country as large and diverse as China.

Ms Barshefsky praised China's decision to extend until August its present crackdown on counterfeiting, but Beijing could hardly have offered less, given the dimensions of the problem.

US negotiators also elicited undertakings that the Chinese

customs office, which "oversees" one of the world's most porous frontiers, would heighten their efforts to stop the export of counterfeit goods. Since the beginning of 1996, customs has seized 80,000 pirated items, only a tiny fraction of exports of pirated CDs, laser discs and CD-Roms.

China has also agreed to step up monitoring of CD factories to ensure that copyright procedures are respected. Among undertakings is that before production of new recordings, the factories will check with the "appropriate US association" to verify royalty arrangements are in order. A weakness of this provision is that monitoring will be in the hands of Chinese law-enforcement officers who may find it difficult to resist local pressures to turn a blind eye.

Coding on CDs and on the moulds used to produce them will in theory help ensure that pirate products are cut off at source. But this will require a higher level of vigilance than has been demonstrated thus far by Chinese security.

Agreement on improved market access for US information and entertainment products appears to have been a big hurdle for negotiators. Ms Barshefsky said that "commitments to market access in the 1996 agreement were sweeping but enforcement was nil".

On this occasion, China appears to have gone further than last year's undertaking by specifically agreeing to allow recording companies and film studios to engage in co-production ventures with Chinese producers. The US believed it had got this understanding last year, but was disappointed. It will take time before it



Charlene Barshefsky, escorted by a Chinese security guard and colleague Lee Sands (right), heads for piracy talks yesterday

becomes clear whether China is able to live up to this element of the agreement. Chinese sensitivity about the introduction of "foreign culture" will continue to make it difficult for US recording companies and film studios to get their products past the censor. On paper this may appear like an important concession, but constraints will be real.

Hong Kong yesterday expressed relief at the agreement. "Since both China and the US are Hong Kong's largest trading partners, Hong Kong's

economy would be affected even if there were limited sanctions," said Ms Denise Yue, secretary for trade and industry. Hong Kong's government had said the colony stood to lose about HK\$13.4bn (US\$1.73bn) of its re-export trade and 11,500 jobs if China and the US had launched tit-for-tat trade sanctions.

Mr Eddy Li, president of the China and Hong Kong Economic and Trade Association, said the deal would boost China's chances of having its Most Favoured Nation (MFN) trade status approved by Congress.

EU set to start talks on 'open skies' with US

By Neil Buckley in Luxembourg

The European Commission is set to launch negotiations with the US on a European Union-US "open skies" agreement to liberalise civil aviation, after securing a mandate from EU transport ministers in Luxembourg yesterday.

After 15 months of negotiations only the UK opposed the unexpected move authorising the Commission to begin explanatory talks with the US.

The deal came days after British Airways and American Airlines unveiled the world's most powerful air alliance - the latest in a string of bilateral agreements between EU states and carriers and the US.

The joint mandate represents victory for Mr Neil Kinnock, transport commissioner, in his vigorous campaign to persuade EU members they can secure better deals with the US by negotiating collectively rather than individually.

"This mandate will ensure that EU carriers can take full benefit of liberalised global air markets and secure for them and their passengers free, fair and above all reciprocal rights across the Atlantic," Mr Kinnock said.

Mr Kinnock stressed the Commission's negotiations would involve "no roll-back" of existing bilateral agreements between the US and EU members Austria, Belgium, Denmark, Luxembourg, Sweden, Finland and Germany, or negotiations on agreement between the US and France.

The potential prize for EU members is greater access to

US routes and airports, and rights to own and operate air lines there. The US has its eye on lucrative markets with which it has no open skies agreement, particularly France, Spain and Italy.

The two-stage mandate allows the commission first to negotiate on "soft rights", including competition issues such as ownership and state aids, and operation of code-sharing and computer reservation systems.

Subject to progress on these, and a further positive vote from transport ministers, the Commission can move to the more sensitive issue of traffic rights, or which destinations airlines are allowed to fly to.

Although the talks would be in two stages, the EU envisages a single, all-embracing agreement. The US welcomed the mandate but expressed caution about the two-stage system. It views traffic rights as central to any talks.

The Commission will now set up a committee of member states' aviation experts to advise on the negotiations, but full talks may not begin until the autumn.

Several member states previously opposed granting the mandate, but the remaining dissenters, Portugal and France, were won over yesterday by adoption of the two-stage approach.

The UK, however, has consistently opposed EU-wide negotiations, and attacked yesterday's deal as a "regrettable decision". Its negative vote was unconnected with Britain's non-cooperation policy over the beef crisis.

WORLD TRADE NEWS DIGEST

Thailand near Burma gas deal

Thailand and Burma yesterday moved closer to a big natural gas supply deal as the two countries pledged their support for a quick conclusion to negotiations between the state-owned Petroleum Authority of Thailand (PTT) and a consortium of Bessac, Premier Oil, Nippon Oil and the Myanmar Oil and Gas Enterprise.

The 30-year supply agreement would have PTT agreeing to purchase 200m cubic feet per day of natural gas from the 1,000 cu ft Yetagun field in Burma's Andaman Sea.

Last year PTT signed a contract to buy 525m cubic feet a day of natural gas from a consortium led by Total and Unocal, which controls the larger Yadana field. Construction of a pipeline across Burma to deliver this gas to Thailand is continuing. Gas from the Yetagun field would be transported along the same on-shore route as gas from the Yadana field, but in a different pipeline until it reached the Thai side of the border, where it would merge into one pipeline.

PTT officials said they expected a formal agreement within a couple of months. Outstanding issues include supply guarantees demanded by the PTT and a price escalation formula.

Ted Bardacke, Bangkok

Japan chip market more open

The share of foreign companies in Japan's semiconductor market rose to 30.6 per cent in the first quarter of this year against 22.8 per cent in the first quarter of 1995, the US Trade Representative's office said.

In the last quarter of 1995 the foreign share of Japan's semiconductor market was 29.6 per cent. Coinciding with the publication of the figures, the US yesterday renewed its demand for continued government involvement in helping foreign manufacturers maintain their access to the Japanese microchip market.

The US-Japan semiconductor accord, which ensures a minimum foreign share of 20 per cent of the Japanese market, expires on July 31. Japan does not wish to renew the agreement because it feels the market share targets have been successfully met.

Foreign Staff, Washington

US move on maritime talks

The US yesterday proposed putting off stalled World Trade Organisation talks on liberalising maritime transport to a new round of negotiations on services due in the year 2000.

US officials told a meeting of the maritime services negotiating group in Geneva that Washington stood by its earlier decision not to submit an offer in the WTO talks, due to end on June 30. Mr Don Kenyon, the Australian WTO ambassador who chairs the group, will hold consultations this week on what to do next, ahead of a further meeting next Monday.

The EU and 23 other countries had hoped to prompt the US to reconsider its stand by tabling an improved package of liberalisation proposals, an offer which lapsed on Friday. But negotiators in private have always recognised that the US would have enormous difficulty in overcoming the opposition of the small but powerful domestic maritime lobby to a multilateral deal, especially in a presidential election year.

EU officials said yesterday they were disappointed by the US decision and suggested the negotiations might be resumed "after a pause", though before 2000. Other delegations, including Japan, appear to favour a prolongation of the present talks.

Frances Williams, Geneva

Polyester yarn dumping duties

The European Union yesterday said it was imposing definitive anti-dumping duties on imports of polyester yarn from Taiwan and Turkey, in view of continuing undercutting on the EU market. The duties will range between 3.3 and 16.1 per cent of net-at-EU frontier price according to the company exporting and the kind of yarn, the EU's Official Journal said.

"In order to provide adequate protection from continued injurious dumping by Turkish and Taiwanese imports and to prevent the recurrence of injury it is considered that anti-dumping duties should be established in such a way as to allow the Community industry to obtain a reasonable profit," it said.

Reuters, Brussels

GEC Alsthom, the Anglo-French group, said its European Gas Turbines unit won orders for gas turbines in China, Korea and Europe totalling more than \$600m. AFX, Paris

Ericsson Telefon of Sweden has won a contract to supply the Concert Joint Environment System. Concert is a joint venture between British Telecom and MCI Communications of the US.

AFX, Stockholm

Call for worldwide rules on competition

By Guy de Jonquieres

World Trade Organisation members should commit themselves to establishing basic competition laws and enforcement systems as a first step towards agreeing binding global competition rules, a European Commission paper has proposed.

The paper, by Sir Leon Brittan and Mr Karel Van Miert, trade and competition commissioners, says that lack of global competition rules restricts free trade, threatening to provoke international trade conflicts and limiting the effectiveness of EU competition policy.

The paper, to be discussed by the Commission tomorrow, urges the EU to press for competition policy to be on the world trade agenda at the WTO's ministerial conference in Singapore in December.

Sir Leon and Mr Van Miert say it is too soon to consider setting up an international competition authority, with its own investigation and enforcement powers. They call for WTO members to move progressively towards agreement on common rules.

These would seek to promote equal conditions of competition worldwide, permit closer co-operation among competition authorities and promote the gradual convergence of domestic competition laws.

The paper says the WTO should set up a compliance mechanism for competition policy, similar to its trade disputes settlement procedures, so that common rules could be enforced.

The mechanism could discipline countries that fail to set up domestic competition policy regimes, or ones that ignored requests from other WTO members to enforce their domestic laws where specific cases arose.

The paper says a WTO agreement on closer co-ordination and enforcement of domestic competition laws might need to be limited initially to industrialised economies and those developing countries which had the administrative machinery needed to handle sensitive commercial information.

Sir Leon and Mr Van Miert say effective global rules are needed to tackle anti-competitive practices which frustrate trade, and to avoid international disputes.

They cite, in particular, US attempts to impose competition laws extra-territorially and permit trade action against countries tolerating anti-competitive practices.

The EU paper says closer global co-operation on competition should not supersede trade defences, such as anti-dumping laws, which should remain in effect until national economies were much more fully integrated.

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NEWS: THE AMERICAS

Clinton fury at Whitewater report leaks

By Jurek Martin, US Editor, in Washington

The White House is reacting furiously to partial leaks of the Senate Whitewater committee report that its Republican majority is to make public today.

Mrs Hillary Rodham Clinton yesterday confronted her Senate accusers for the first time, when she sent a written reply to questions from the White-water committee.

She said she did not know how billing records detailing her work for the savings and loan at the centre of the White-water investigation came to be removed from her law firm, or how they showed up two years later in the White House.

Mrs Clinton's lawyer complained that Senate Republicans had leaked the findings of the investigation before the First Lady had even finished drafting answers to their questions, which she received late last week.

"It simply makes no difference what information we furnish you," Mr David Kendall wrote in a letter transmitting Mrs Clinton's answers. The Republican majority report on Whitewater was "simply the politically preordained verdict of a kangaroo court."

Yesterday morning Mr Mark Fabiani, an associate legal counsel to President Bill Clinton, observed that Washington "is the only place in the country where an ethics report by Senator [A] D'Amato would be taken seriously." The senator from New York is chairman of the committee, whose mandate expired yesterday.

"In most parts of the country," he went on, "people understand that Senator D'Amato is the chairman of the campaign and that he's run 14 months of hearings at taxpayer expense that basically result in a paid campaign contribution."

in targeting the messenger, Mr D'Amato, the White House is trying to blunt the impact of Whitewater and other related affairs.

Yesterday in Little Rock, Arkansas, the trial began of two local bankers accused of illegally diverting funds to then Governor Clinton's re-election campaign in 1990.

The case of the FBI personnel files on prominent Republicans, requested by the White House in 1993-94, is also attracting widespread interest.

The latest batch of leaks, alleged that White House lawyers "seriously misused" their public offices by working on Whitewater-related matters for the first family, including passing on information from government agencies to the Clintons' personal lawyers.

The majority report is also reportedly highly critical of what it calls "highly improper conduct" by several close associates of Mr and Mrs Clinton inside and outside the White House. They include Mr Bernard Nussbaum, who resigned as White House legal counsel under fire for his handling of Whitewater, and Mr Harold Ickes, deputy White House chief of staff and a top re-election strategist for Mr Clinton.

The cumulative weight of allegations does appear to be taking some toll, especially now that Mr Dole may be cutting into Mr Clinton's lead in the polls.

Banks hold key to Mexico's recovery

Businesses are starved of loans in country's 'Can't Pay, Won't Pay' culture.

Mexico's banking crisis continues to dog Mr Guillermo Ortiz, the finance minister. Due to a financial convention in the northern city of Monterrey this month, he found his path blocked by a mob of angry debtors.

The minister flew back to Mexico City, his speech delivered in another publicity coup for El Barzón, a militant debtors' movement that has bedevilled the lives of Mexico's scions of finance since the country's economic crisis erupted in December 1994.

El Barzón - The Yoke - claims more than 11 million members nationwide and appears to have lost none of its disruptive power despite government relief schemes to help Mexico's over-indebted middle classes.

The latest programme, announced last month, aims to lower the cost of mortgages by 80 per cent. The government says the programme will benefit almost all Mexico's 900,000 mortgage-holders, who took out home loans in the early 1990s when the economy was growing, interest rates were low and finance was plentiful.

The snag is that to qualify for mortgage relief, borrowers have to be up to date with their payments, and most are not.

Most mortgage holders stopped servicing their debts last year, when the financial turmoil triggered by the 1994 peso devaluation led domestic interest rates to shoot above 100 per cent.

That was when Mrs María Ramírez, a maternity teacher in her 50s, stopped servicing her 80,000 peso (\$16,500) mortgage. A year on, with interest penalties and a host of other charges and commissions, she owes her bank 340,000 pesos, a sum which far exceeds the value of her modest dwelling. "There is no way I can service this debt," she said as she jotted a cheque

outside the offices of El Barzón in Mexico City.

Officials concede that relief schemes implemented so far have met only partial success. "Each time we have introduced a new relief programme, we thought it would be the last," says Mr Javier Gavito, a vice-president at the National Banking and Securities Commission.



He blames the prolonged recession, now in its 18th month, high inflation and high interest rates for undermining the effectiveness of debt relief programmes. But his biggest nightmare is the 'Can't Pay, Won't Pay' culture which has taken hold in Mexico.

Other interest groups are now clamouring for special attention, including the farming lobby, expected to get its own debt-relief programme before the end of the month. Smaller businesses are next in line.

The banks themselves, meanwhile, need help to keep loans current as they prepare for the introduction of US accounting standards early next year. At present, Mexican banks only record as past-due loan instalments not paid after 30 days, while the remaining balance is

considered current. By contrast, US banks must record the entire loan as past-due if no payment has been received for 90 days.

"If Mexican banks had to adopt US standards today, the true level of non-performing loans would be closer to \$50bn - half of the total loans in the system - rather than the \$26bn which are considered past-due

take advantage of a relief scheme in which banks can sell their bad loans to the government if shareholders inject fresh capital into the bank. The ratio set by bank regulators is 2 pesos of bad loans for every peso of additional capital.

"If things go well for Serfin, the government will have incurred no cost," says Mr

acquisition of Banco Mexicano, another medium-sized bank with a troubled portfolio of corporate loans.

The foreign takers will almost certainly involve further sales of bad loans to the government, which is one reason finance officials and bank analysts are still juggling with estimates of the total cost of Mexico's banking crisis.

Mr Fernández at the National Banking and Securities Commission estimates the cost of loan purchases and debt relief schemes to date at 6.5 per cent of gross domestic product. Most economists, however, put the cost at above 10 per cent of GDP.

"We think the government is over-estimating the proportion of bad loans which it will be able to recover," says Mr José García-Cantera, a senior banking analyst at Salomon Brothers in New York, whose own estimate of the cost of the banking crisis approaches 12 per cent of GDP.

Such estimates do not include the wider costs to the Mexican economy as a whole. For the foreseeable future, Mexico's debilitated banking system will be unable to function as an efficient purveyor of capital for businesses starved of credit, while the burden of bad debts will continue to impose a heavy tax on the cost of finance.

"We are worried that the government's efforts have not been directed at getting the banks to start lending again," says Mr Alfredo Torres at JP Morgan in Mexico City. The government seems to think that an economic recovery will do away with the weaknesses in the Mexican banking system, whereas the recovery will not take place unless the banks are strengthened first."

US allows Karadzic charges

The US Supreme Court yesterday ruled that women raped and tortured during the war in Bosnia could file charges in the US against Mr Radovan Karadzic, Bosnian Serb leader, for crimes against humanity. Laura Silber reports from Belgrade.

The court turned down Mr Karadzic's defence that he could not be sued because he is a private citizen, none of the alleged crimes were committed in the US.

The ruling comes against a background of failed international efforts to unseat Mr Karadzic, indicted for war crimes by the UN tribunal in The Hague.

It coincides with reports from the Misleaded Bosnia government that international mediators have struck a deal paving the way for a Bosnian Serb leader to step down before Bosnian elections, due to be held in September.

Yesterday the tribunal dismissed charges against Mr Goran Ljajic, a Bosnian Serb who was accused of killing at least five Muslim prisoners, because of mistaken identity.

The ruling comes against a background of failed international efforts to unseat Mr Karadzic, indicted for war crimes by the UN tribunal in The Hague.

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Rash of church fires continues

Fire destroyed a black church in south-eastern North Carolina yesterday, the second such fire in the state in less than two weeks, Reuters reports from Rocky Point.

A fire yesterday also badly damaged a former sanctuary at a church in Georgia with a mostly white congregation.

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Helms-Burton undermines international investor climate, says Ottawa

By Bernard Simon in Toronto and Guy de Joux in London

Canada yesterday became the first country to retaliate against US legislation which would penalise foreign companies doing business in Cuba.

Mr Arthur Eggleton, trade minister, unveiled several measures designed to discourage US companies from taking action against Canadian companies and their executives.

Mr Eggleton spoke as the US published official guidelines for enforcing Title 4 of the Helms-Burton Act, which permits the US to deny entry visas to executives of foreign companies which have "trafficked" in confiscated property in Cuba.

Mr Eggleton said Ottawa would call for a meeting of the ministerial commission set up under the dispute settlement provisions of the North American Free Trade

Agreement. Canada contends that the entry ban violates NAFTA guarantees of free travel between the two countries.

Ottawa also plans to tighten the Foreign Extraterritorial Measures Act, which allows Canadian companies to ignore US court rulings. The changes would clear the way for Canadian companies to move against assets held in Canada by US complainants. Canadians would also be able to counter-sue in Canadian courts for damages awarded in the US.

However, the amendments will not be presented in parliament until President Bill Clinton decides later this summer whether or not to waive parts of the Helms-Burton law.

Mr Eggleton said Helms-Burton, named after its Republican sponsors in Congress, "takes aim at [the US's] foe, and then shoots its friends. It undermines the international investment climate and does

nothing to encourage trade liberalisation."

Although foreign investors have lobbied the State Department intensively to make the guidelines as precise as possible, some said yesterday that some provisions of the final version were vague and ambiguous.

Concern centres particularly on a provision which would allow Title 4 to be applied to "corporate officers of a parent or subsidiary... if they perform policy-making functions for the entity."

Some foreign investors fear the provision could entitle the US to expel managers of the US subsidiaries of foreign companies, as well as to deny entry to senior executives of the parent companies.

They also complain that the guidelines do not define exactly the circumstances in which a company having "business dealings" with a company found guilty of "trafficking" would also be covered by the act.

Cuba confident of growth despite US legislation

By Pascal Fletcher in Havana

Cuba's economy has been boosted by advances in tourism and in sugar and nickel production, and is maintaining a gradual recovery which will help to counter the impact of US legislation aimed at discouraging foreign investment on the island, the government has announced.

Vice president Carlos Lage said the economy was expected to sustain in the first six months of this year the 7 per cent growth in gross domestic product achieved in the first quarter.

"We can say that, in spite of the Helms-Burton Law, the

economy is maintaining its rhythm of recovery," Mr Lage told a meeting of Latin American parliamentarians at the weekend.

He acknowledged that the legislation, introduced by Washington on March 12, which threatens penalties against foreign investors who "traffick" in expropriated, formerly US-owned properties in Cuba, could slow the pace of foreign investment.

However, continuing economic recovery, coupled with growing international condemnation of the US legislation, would help to limit the effect of the measures.

Mr Lage said an improved

1996/97 sugar harvest - 4.45m tonnes so far this season - compared with last year's record low crop of 3.5m tonnes - had contributed to this year's growth. Tourism was also gaining, and nickel production was on track for a record output of 50,000 tonnes in 1996.

The government has set an official target of 5 per cent GDP growth this year, following 2.5 per cent reported for 1995. Foreign analysts say the growth figures must be seen in the context of the depressed state of the economy, the result of a severe recession which pushed down GDP levels by nearly 35 per cent between 1989 and 1993.

Mr Moore, the first state attorney general to sue the industry, told a tobacco litigation conference that he had also been contacted by lawyers in South America, Australia, Canada and Britain about filing cases against tobacco companies.

He said the attack on the tobacco industry was growing with the emergence of the whistleblowers and with steadily increasing interest by states, cities and foreign countries in suing cigarette makers.

Boost for tobacco courts campaign

The emergence of new whistleblowers revealing the industry's alleged practices is helping states seeking to sue tobacco companies for smoking-related health care costs, Mr Mike Moore, Missouri attorney general, said yesterday, Reuters reports from West Palm Beach.

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Advertisement for Sharp copiers, featuring a large image of a copier and text describing its features and benefits.

Advertisement for 'FAST 64 KBIT SATELLITE TECHNOLOGY' for real-time data of the US and European exchanges, listing services like Shares Monitoring, Financial News, and Indices.

LEGAL NOTICES section containing various legal notices and company announcements.

Advertisement for 'Les Echos' financial newspaper, highlighting its role in providing business news and market analysis.

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS. A large table with multiple columns for different countries (USA, Japan, Germany, France, Italy, UK) and rows for various economic indicators like GDP, Inflation, and Exchange Rates.

COMPANIES AND FINANCE: ASIA-PACIFIC

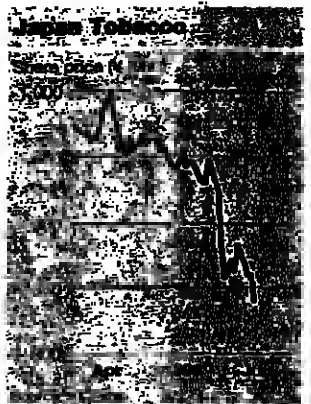
Japan Tobacco share offering priced

By Enriko Terazono in Tokyo

The price for the second offering in shares of Japan Tobacco, the country's sole tobacco company, has been set at ¥815,000 a share, representing a 3.1 per cent discount on yesterday's closing price of ¥841,000 a share. The sale will raise about ¥222bn (\$2.04bn).

The announcement comes as the government seeks to release stocks of other state-owned companies to increase its revenue. The ministry of finance still owns two-thirds of Nippon Telegraph and Telephone, the telecommunications group, while the ministry of transport wants to list the railway companies created in 1987 when Japan National Railways was broken up.

Of the six railway groups awaiting privatisation, West Japan Railway (JR West), the second largest of the seven companies, yesterday said it had filed its listing application with the country's stock exchanges.



Market. In 1995, JR West was unable to meet listing criteria because its earnings were hit by damage caused by the Kobe earthquake.

land of the former JNR has been shifted, holds all 2m shares. JR West, it says, plans to list the company later this year, but a date has not been set.

Sony set to introduce high-end home PCs in US

By Michio Nakamoto in Tokyo and Louise Kehoe in San Francisco

Sony, the Japanese consumer electronics manufacturer, was poised to announce its entry to the US home computer market yesterday evening in New York, with the introduction of two personal computers.

NEWS DIGEST

Reshuffle at Dairy Farm International

Dairy Farm International, the food retailing arm of Singapore-listed Jardine Matheson, yesterday unveiled a management reshuffle in which Mr Chris Neilson will step down from the top post in Asia. The new finance director is Mr Edouard Ettegen, who is now business development director with British American Tobacco Holdings, a subsidiary of BAT Industries of the UK.

Toshiba sets PC sales targets

Toshiba, the Japanese electronics group, expects personal computer worldwide sales of 2.6m units for the year to March 1997. Of this total, Toshiba said it expected domestic PC unit sales to be as much as 690,000 units. Toshiba said it had set sales targets for its newly launched notebook-type PCs of 80,000 units a month.

Australian casino group in loss

The slowdown in Australia's expanding casino industry was confirmed yesterday. The listed Reef Casino Trust, which developed the new casino in Cairns, Queensland, announced it had suffered a loss after interest, but before depreciation and amortisation, of A\$2.2m (US\$1.7m) in February and March, its first two full months of operation. By the end of May, the deficit had been reduced to about A\$125,000.

CBA retail offer opens

The retail segment of the A\$4bn (US\$3.17bn) sale by Australia's federal government of its remaining shares in Commonwealth Bank opened yesterday. The authorities said more than 250,000 requests for offer documents had been received. The retail offer will last until July 5, with the institutional offer taking place the following week. The price of the shares - which will be due in two instalments - will be set shortly afterwards. CBA shares added 10 cents to A\$10.35, in a generally stronger bank sector.

Excise dispute forces dividend cut at ITC

By Kunal Bose in Calcutta

ITC, India's largest tobacco group in which BAT, of the UK, has a stake of almost 32 per cent, yesterday announced an increase in pre-tax profits but a sharp cut in its dividend. The lower dividend was in part the result of an ongoing dispute over excise payments.

pushed net profits down from Rs2,62bn to Rs2,61bn, while sales rose from Rs47,02bn to Rs47,99bn. Many analysts had forecast net profits of more than Rs3.5bn, and ITC shares closed Rs24 lower at Rs301.

appeal against the order. The authorities, however, have directed the company to deposit, in instalments, Rs8.5bn of excise duty by January 1, 1997.

Mr Yogesh Chander Deshpande, who became chairman in January despite strong opposition from BAT - but with the backing of Indian financial institutions which own 38 per cent of ITC - has been able to win BAT's confidence, according to company sources.

Beijing pilots Dragonair to clearer skies

CNAC's involvement, plus freedom from Cathay Pacific, should benefit the carrier

Proof that expansion at Dragonair, Hong Kong's ambitious second carrier, would gather momentum after it came under mainland control has not taken long to materialise.

For Dragonair, long the preferred carrier for flights into the mainland, having CNAC on board is seen as a big plus. Dragonair now flies to 14 cities in China, and last week's agreement increases the likelihood that further destinations will follow now that the mainland aviation regulator is a shareholder.



Dragonair analyst at Lehman Brothers in Hong Kong, points out, the heavily regulated environment means most routes within Asia are high-yielding and profitable.

that is probably what's going to be happening here. It will definitely help consumers, and it will push for airlines to become more efficient.

HR\$912m this year, up from last year's HK\$722m. The obvious benchmark for pricing is Cathay Pacific, now trading on a p/e multiple of 14 times historic earnings. Many assume Dragonair will be priced at a premium to Cathay - reflecting its greater growth potential, which comes at the expense of Cathay Pacific.

Last week, days after the new share ownership structure was approved, Dragonair secured an additional five routes in China and more in Taiwan.

Moreover, analysts see growth opportunities across the fast-growing Asia-Pacific region, now Dragonair is out of Cathay Pacific's pockets.

Even based on Dragonair's existing routes, the company's forthcoming share issue has its fans. "We're unlikely to see the investment bankers price this one too low. It has a lot of potential to expand its business in China," says Mr Francis Wong, a fund manager at IDS Fund Management, a wholly owned subsidiary of American Express.

The market is looking at a prospective price earnings ratio of 12-15 times, which could value the airline at HK\$13bn-HK\$14bn. CNAC obtained its stake for only 7.2 times historic earnings, on Mr Magee's calculations, he is forecasting net profits of

The agreement, held up for almost a year by three-way political wrangling - Beijing, Hong Kong and Taiwan all having their own agendas - came days after China tightened its grip on Dragonair.

Mr Declan Magee, analyst with HG Asia in Hong Kong, notes: "Sovereignty is changing. Hong Kong reverts to China in the next year and it may be difficult to say 'no' to China-backed requests for new routes. Given there's no-one battling for Cathay Pacific's interests, I imagine Dragonair will have a lot more implicit power in terms of being favoured ahead of Cathay Pacific."

Mr Koo Zayong, aviation analyst at CS First Boston in Hong Kong, says: "In other countries we have seen a lot of second national carriers coming up and sharing some of the profitable routes, so I believe

Petronas chief targets Africa for expansion

By James Kynge in Kuala Lumpur

Petronas, Malaysia's state-owned oil company, plans to use its proposed purchase of a 30 per cent stake in Engen, a South African oil refining and marketing concern, as a "beachhead" for expansion into the African continent.

"We have been interested in the African continent. Engen, being close to Africa, will know the business," Mr Hassan said. "South Africa will provide us with a beachhead into the African continent."

The planned purchase, estimated to cost US\$2.5bn, is ground breaking in many senses. It is the biggest foreign investment in South African history and the largest yet by the Malaysian company.

Engen, which was courted by Mobil Oil of the US and France's Elf Aquitaine, chose Petronas as its partner because the highly profitable Malaysian company is wealthy enough to finance ambitious growth, but not so big as to subsume the South African company, according to Petronas.

As Mr Magee, at HG Asia, says: "If you have got the regulator in the driving seat, so to speak, you are going to have lots of routes open to Dragonair at a time when the new - and bigger - Hong Kong airport is coming on stream."

ING Australian unit in bid for Pacific Mutual

By Nikki Tait in Sydney

Mercantile Mutual, the Australian insurer owned by the Netherlands-based ING group, is making a A\$38m (US\$7.6m) bid for Pacific Mutual, the listed Sydney-based financial services group.

takeover candidate after MMI, another quoted Australian insurer, said in January that it no longer wished to remain a strategic shareholder. MMI holds more than 30 per cent of Pacific Mutual's shares.

Directors of Pacific Mutual said that they would be accepting the Mercantile Mutual offer in respect of their own holdings, unless a higher offer were forthcoming. However, MMI said only that it would wait to see the formal offer documents before making a decision on its 30.2 per cent holding.

both Commonwealth Funds Management, the fund management unit owned by the federal government but a likely privatisation candidate, and the New South Wales State Super operation, which the state government has said is for sale.

Advertisement for FT Discovery featuring a fisherman and the text: 'Fed up with fishing for business information? FT Discovery. The instant way to hook the information you need.' Includes contact details and a coupon for requesting information.

Mediaset chief says float will fund growth

By Andrew Hill in Milan

The chairman of Mediaset, Mr Silvio Berlusconi's media company, claimed yesterday the group's forthcoming flotation would help "democratise" the Milan stock exchange, and fund further expansion in new markets and sectors.

Up to 56m Mediaset shares - about 8 per cent of the company - will be sold to the Italian public, which is being wooed by advertisements in the press, by posters, and on Mediaset's own television channels. A further 8m of the 253m shares available will be

reserved for employees, and the rest for institutional investors. The operation will value the group at between L7,000bn and L8,500bn (\$4.5bn-\$5.4bn), making it one of Italy's largest quoted companies.

Fininvest, Mr Berlusconi's family holding company, will reduce its stake in Mediaset from 71 per cent to just under 50 per cent, if minority shareholders' options to buy more shares are exercised. The price will be set on June 29 at between L6,000 and L7,200 a share. Trading should start in Milan and on London's Seaq International on July 15.

About half the shares for the flotation will come from a capital increase. At yesterday's launch of the investment road show, Mr Paolo Confalonieri, chairman of Mediaset, said the group could use part of the proceeds to expand its television interests in Spain and Latin America. Mediaset has an option to buy Fininvest's 26 per cent stake in Telepiù, the Spanish TV network, and related media activities at a favourable price.

Mr Confalonieri also pointed to the potential of Mediaset's alliance with British Telecommunications and Banca Naz-

ionale del Lavoro. He confirmed they would be part of a consortium to bid for Italy's third mobile phone licence later this year.

Mediaset management and advisers have spent the last few weeks insulating the company from the deepening judicial inquiry into Fininvest's affairs.

Yesterday, the chairman also reassured potential investors Mediaset would not lose one of its three commercial television channels. The Italian parliament is supposed to present a new plan on media ownership by late August - if it interprets

a 1994 constitutional court ruling strictly. Mediaset and RAI, the state broadcaster, might each have to give up one of their three channels.

However, Mr Confalonieri reminded journalists yesterday that Mr Massimo D'Alema, leader of the former communist PDS, had told Mediaset employees at a meeting before the April election that they had nothing to fear. PDS and its allies won the election. "I think that now Mediaset, and the group's television networks, are considered by everyone as part of the country's heritage," he said.

Deutsche Telekom supervisory head quits

By Michael Lindemann in Bonn

Deutsche Telekom, which is due to engineer Germany's biggest stock exchange listing later this year with a DM15bn (\$9.8bn) share issue, is losing the long-standing head of its non-executive supervisory board.

Company executives and industry insiders admitted yesterday they were "surprised" by the decision of Mr Eolf-Dieter Leister to leave. The company announced yesterday he would step down on July 1, citing personal reasons.

However, the repercussions of his departure are expected to be short-lived. Officials in Bonn said a successor had already been appointed and was likely to be announced later this week.

Mr Leister, 55, a former head of the German operations of International Business Machines, has been advising the state-owned company since 1983. Deutsche Telekom said a further five-year term as head of the Aufsichtsrat, or supervisory board, "did not fit in with his personal and professional plans".

Before Deutsche Telekom became a joint stock - or public limited - company early last year, special legislation covering the German postal and telecoms services meant Mr Leister's position as head of the supervisory board made him more powerful than his counterparts at other companies. He had more influence on strategic decisions and the appointment of top executives.

However, since 1995 his job has been a more passive supervisory role, with management control now in the hand of Mr Ron Sommer, chief executive, who came from Sony, the Japanese electronics group.

Mr Leister, meanwhile, holds a number of other advisory positions across the German telecoms industry and is likely to move into consultancy work. "He may have been wondering whether his job at Deutsche Telekom was worth all the bother," one industry executive said.

NEWS DIGEST

KPN lifts holding in GD Net to 54%

KPN, the privatised Dutch posts and telecoms utility, is expanding its interests in the international courier and express delivery market by becoming the largest shareholder in GD Net, which co-owns TNT Express Worldwide with TNT of Australia. Amsterdam-based TNT Express Worldwide claims European market leadership in express delivery services.

KPN said its PTT Post division would hold 54 per cent of GD Net, up from 18 per cent, while the remainder would be owned by Sweden Post, which previously had 16 per cent. This ends a four-year arrangement under which control was shared among five national mail utilities. La Poste of France, Deutsche Post and Canada Post are to sell out at an undisclosed price, but will retain operational links with TNT Express Worldwide.

KPN said it and Sweden Post wanted to create a much more decisive ownership structure for GD Net. "The move shows that PTT Post is one of the most entrepreneurial and dynamic of European postal businesses," said Mr Jonathan Lee of James Capel in London.

Gordon Cramb, Amsterdam

Renault to sell valve plants

Renault, the French motor vehicle manufacturer, plans to sell two valve plants to TRW, the US automotive parts and aerospace group which is reported to be interested in a strategic stake in Volvo, the French components company.

Under the proposal, Renault would convert the plants, which employ about 600 people, into subsidiaries by the middle of next year, with TRW acquiring a 49 per cent interest. Renault will retain a majority stake in the ventures for an initial transition period, but the company said yesterday they could be completely divested within two years.

Renault explained the move by referring to heavy research and development costs and the need to shorten design time cycles. US and European vehicle makers are handing the development and manufacturing of complete sub-assemblies to specialists. TRW said the two companies were "still negotiating".

David Owen, Paris

Volvo drugs stake plan filed

Pharmacia & Upjohn Inc, the US subsidiary of the London-based drugs group, has filed a registration statement notifying the US Securities and Exchange Commission of Volvo's intention to sell most of its 13.8 per cent stake in Pharmacia & Upjohn, the Swedish automotive group said. Volvo has appointed Goldman Sachs and Merrill Lynch in connection with the registration.

AFX News, Stockholm

Berry keeps Danzas fight alive

Mr Nicholas Berry, chairman of the Stancroft Trust investment company, said yesterday he would continue to fight for shareholder interests in Danzas, the Swiss freight forwarder, despite his failure to be elected to the board at last Friday's annual shareholders' meeting. Mr Berry, who plans to keep his 2.5 per cent stake in the company, has campaigned for policy changes to boost shareholder value. On Friday, despite the opposition of the Danzas board, nearly a fifth of shareholders voted for the candidacies of Mr Berry and Sir Michael Edwardes, former chairman of British Leyland.

Frances Williams, Geneva

Metax-Serla, the Finnish forestry group, says it may sell its chemicals division. The division accounts for around 4 per cent of company sales.

AFX News, Helsinki

Deutsche Babcock warns of heavy operating losses

By Michael Lindemann

Deutsche Babcock, the German engineering group struggling to restructure many of its loss-making activities, yesterday warned it expected operating losses of up to DM300m (\$197m) for the current year, which ends on September 30.

The company announced restructuring plans, involving the disposal of businesses with combined sales of DM1.5bn, in February. However, it had declined to specify the cost of the overhaul.

Deutsche Babcock said it was still too early to say whether it would report a net profit or loss for the year. This was because a number of units

were due to be sold and several other measures had been taken to streamline operations.

The group reported a net loss of DM46m last year, and sent a letter to shareholders with its recent six-month results which analysts described as "very depressing".

The Oberhausen-based group said it was looking for buyers for Magdeburger Armaturenwerke, a unit making industrial fittings, and for Kugelbahn, a Berlin-based company specialising in valves for heavy pipes.

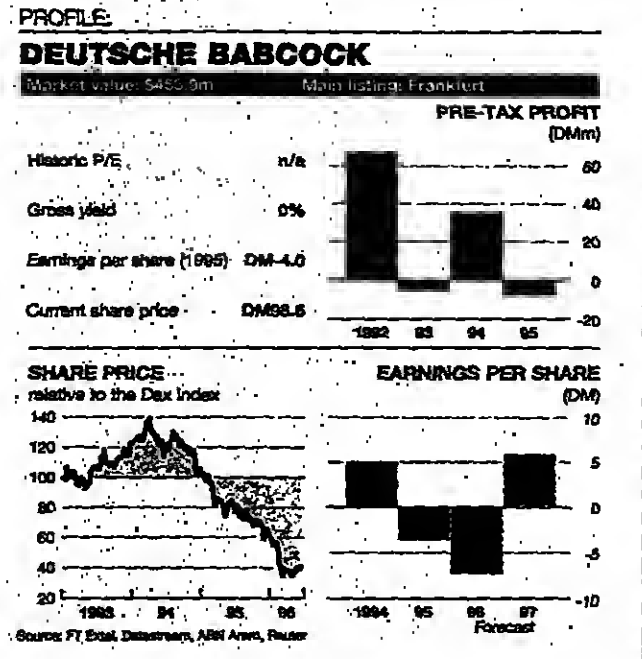
The electro-engine business of Flender, another subsidiary, is also for sale.

As part of efforts to cut costs, Mr Heyo Schmedek-

nacht, chief executive, said the size of the group's Vorstand, or management board, would be reduced from six to "three or four", and the number of people working at the holding company which oversees Deutsche Babcock's myriad businesses, from 120 to 90.

The remaining members of the management board would no longer be involved in the operations of the group's subsidiaries, enabling them to make clearer decisions, Mr Schmedeknacht said. "With this new management structure we will be able to resolve conflicts more cleanly," he told the Frankfurter Allgemeine newspaper.

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Czech energy group loses chief financial officer

By Vincent Boland in Prague

Mr Gabriel Eichler, chief financial officer of CEZ, the Czech energy utility, is to step down shortly to pursue other business interests. Mr Eichler said yesterday his resignation had been accepted by the CEZ supervisory board effective from June 30, but he may remain longer to ensure a smooth transition. "My aim is to leave, but it is a question of when," he said.

Mr Eichler, finance chief since April 1994, has been closely identified with a financial restructuring at CEZ that won it post-communist eastern Europe's first

investment grade rating for an industrial company. The revamp and the rating combined to reduce the cost of its heavy borrowings.

The market shrugged off news of Mr Eichler's move, with CEZ shares rising sharply in a generally strong market. But analysts were disappointed, saying CEZ might have difficulty finding a replacement. "It's definitely a pity - he was one of the most capable people at CEZ. It will be quite difficult to find a replacement," said Mr Miroslav Nosal of the investment bank, Patria Finance. No successor was immediately announced.

Mr Eichler, who is also CEZ deputy chairman, was the main link between the company and its bank lenders and investors. CEZ, the biggest Czech borrower, is undertaking a Kc130bn (\$4.6bn) investment programme to cut pollution at coal-burning plants and complete a nuclear power plant with Westinghouse, the US group.

Some analysts said Mr Eichler's decision may reflect frustration at the slow pace of electricity price liberalisation, a sensitive political issue and one which may be delayed further following the inconclusive outcome of general elections earlier this month.

Mr Eichler, a former chief international economist at Bank of America, said he had declined an offer to remain at CEZ for another four years because he wanted to pursue other interests. He is a co-founder of Benson Oak, a private investment advisory firm in Prague that recently hired several executives from the investment bank J. P. Morgan.

Standard & Poor's, the credit rating agency, on Friday raised its rating on CEZ and its \$150m subordinated from BBB to BBB+, reflecting the success of its investment programme and its negotiation of long-term power supply agreements with regional distributors.

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Audited Financial Results for the year ended 31st March, 1996.

Sales	US\$ 2.27 billion	+ 11%
Net Profit	US\$ 380 million	+ 23%
Earnings Per Share - EPS	US 81 cents	+ 19%
Net Worth	US\$ 2.45 billion	+ 17%

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Compounded Annual Rate of Growth - CARG

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Net Profit	60%
Earnings Per Share - EPS	28%
Net Worth	49%

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Registration number 01/0088/06

GOLD MINING COMPANIES' DIVIDENDS

The Randfontein Estates Gold Mining Company, Witwatersrand, Limited

Registration number 01/0081/06 ("Randfontein")

FINAL DIVIDEND NO. 122

The directors of Randfontein have declared a final dividend of 75 cents per share to shareholders registered at the close of business on Friday, 5 July 1996...

This dividend is payable subject to the customary conditions which may be inspected at or obtained from Randfontein's Johannesburg office or from the London Secretaries...

Western Areas Gold Mining Company Limited

Registration number 99/0259/96 ("Western Areas" or "the Company")

CAPITALISATION SHARE AWARD - RIGHT OF ELECTION TO RECEIVE INSTEAD A FINAL DIVIDEND (NO. 49) AND TO SUBSCRIBE FOR NEW SHARES - OFFER TO ACQUIRE NEW SHARES

The directors of Western Areas have resolved to award capitalisation shares ("the Capitalisation Award") to shareholders registered at the close of business on Friday, 5 July 1996 ("the Record Date")...

Shareholders receiving the Capitalisation Award or electing the Subscription will be issued new ordinary shares in Western Areas. The number of new shares to be awarded per share held on the Record Date will be determined as the ratio that 63 cents bears to the weighted average traded price of Western Areas shares on the Johannesburg Stock Exchange ("the JSE") on Wednesday, 7 August 1996...

JCI Limited has undertaken to provide a facility for shareholders receiving the Capitalisation Award or electing the Subscription to dispose of these new shares to JCI Limited at the Calculated Price. The effect of such a disposal will be the receipt of a cash payment of 63 cents per share held on the Record Date, which is 5% higher than the dividend of 60 cents per share.

The purpose of the Capitalisation Award and the Subscription is to enable Western Areas to retain funds in the company that will assist in financing the further exploitation of the South Deep section of the mine. The extent to which shareholders elect these two alternatives will influence the amount and timing of any future funding requirements.

The alternatives to the dividend, together with the undertaking by JCI Limited to acquire the new shares issued by Western Areas, provide shareholders with flexibility to select the alternative that best suits their tax circumstances and cash requirements.

The new ordinary shares to be issued pursuant to the Capitalisation Award will be issued as fully paid ordinary shares of 50 cents each by way of a capitalisation of part of Western Areas' share premium account and will rank pari passu in all respects with the Western Areas ordinary shares presently in issue. The issue of new shares will only be made to ordinary shareholders of Western Areas on the basis of whole shares. All fractions of new shares will be aggregated and sold for the benefit of the relevant shareholders. Subject to the approval of the JSE the new Western Areas shares to be issued will be listed on the JSE with effect from the commencement of business on Wednesday, 14 August 1996.

Documentation, which is subject to the approval of the JSE, containing the full details of the right of election will be posted to shareholders on or about Friday, 12 July 1996. The election period will be extended by 6 days from the customary three weeks to enable shareholders to receive, complete and return the election forms in time. The completed election forms must therefore reach the transfer secretaries by no later than 16h00 on Thursday, 8 August 1996. Should a valid election form not be timely received, capitalisation shares will be awarded.

The register will be closed from Saturday, 6 July 1996 to Friday, 12 July 1996, both dates inclusive. Currency conversion for payments from London will take place on 12 August 1996. It is expected that share certificates in respect of the new Western Areas ordinary shares and, if applicable, cheques in respect of the final dividend and shares sold, will be posted to shareholders on or about Wednesday, 14 August 1996.

By order of the board

JCI Limited Secretaries

Per R M Tsimai

18 June 1996

Head and registered offices: Consolidated Building, Cent Fox and Harrison Streets, Johannesburg 2001 (P.O. Box 500, Johannesburg, 2000)

London Secretaries: JCI (London) Limited, 6 St James's Place, London, SW1A 1NP

TOKYO PACIFIC HOLDINGS N.V. (TPH)

NOTICE EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS

Tokyo Pacific Holdings N.V. (TPH), which has its registered office in Curaçao, Netherlands Antilles.

Shareholders of TPH are hereby invited to attend an extraordinary general meeting of shareholders to be held at the office of the company at John B. Gorstlaeweg 14, Willemstad, Curaçao, Netherlands Antilles at 3.00 p.m. on July 9, 1996.

The complete agenda, which includes among other things two resolutions to alter the memorandum and articles of association and a resolution to move the registered office of TPH to Luxembourg, and the literal text of the resolutions have been deposited at the office of the company and at the offices of the paying agents referred to below for inspection by the shareholders.

Copies of the agenda and the complete text of the resolutions to alter the memorandum and articles of association may be obtained by the shareholders free of charge at the above-mentioned places.

The holders of bearer shares must deposit their share certificates with one of the following paying agent offices in order to gain admission to the meeting. In exchange for the deposit, they will be issued with a receipt which also serves as proof of admission to the meeting.

The holders of registered shares should inform the Management Board of TPH in writing by July 2, 1996 at the latest if they wish to attend the meeting.

Willemstad, Curaçao, June 18, 1996.

THE MANAGEMENT BOARD

Paying agent offices:

MeesPerson N.V. Robin 55 1012 KK Amsterdam The Netherlands

Trinkhaus & Burkhardt Königsgasse 21/23 D-4000 Düsseldorf Germany

Sal Oppenheim Jr. & Cie. Unter Sachsenhausen 4 D-5000 Cologne Germany

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COMPANIES AND FINANCE: THE AMERICAS

Compaq to launch broad range of laptop PCs

By Louise Kehoe in San Francisco

Compaq Computer aims to get back to its roots as one of the first manufacturers of portable personal computers, with the introduction of a broad new range of laptop PCs.

Compaq led the market for portable PCs in the 1980s, but has lost its market leadership to Toshiba and other manufacturers of laptop computers in recent years.

The company's new Armada models represent "the launch pad for the re-emergence of Compaq's business heritage", said Mr Michael Winkler, senior vice-president and general manager of Compaq's portable PC division, who joined the company seven months ago.

Over the next 12 months Compaq will add products in every category of the portable PC market, including hand-held "Mobile Companion"

products, Mr Winkler said. The company yesterday unveiled an aggressively-priced standard laptop PC, based on Intel's 100MHz Pentium chip, that will sell in the US for \$1,899. That is about \$400 cheaper than the equivalent Toshiba product, Compaq said.

Compaq also introduced a new line of ultra-thin laptop PCs weighing only about 5 lbs (2.25kg) that feature special "bays" to accommodate extra batteries, disk drives and other peripherals and added new high performance models designed for use in business presentations.

"We want to regain the number one position in portable computing over the next 18 months or so," Mr Winkler said.

International Business Machines will today announce its re-entry into the market for low-end computer printers, five years after it withdrew from the business by spinning off its printer division. With the March expiry of a five-year agreement not to compete with its former division, now called Lexmark International, IBM is keen to return to the high-growth segment of the \$8bn market for PC printers.

IBM will announce four printers with speeds of up to 24 pages a minute. The products will compete directly with printers from Lexmark as well as with those of Hewlett-Packard, the market leader. IBM will distribute the new printers through retail outlets that carry its PCs as well as through its direct sales force. Pricing will be "very competitive", IBM said, although prices have yet to be announced. Lexmark, in which IBM retains a 6 per cent holding, will continue to distribute printer supplies to IBM customers. Sony to launch PCs in US; Toshiba sales target, Page 16

NEWS DIGEST

Merger will create Chile's largest bank

Banco de Santiago and Banco O'Higgins, Chile's third and fourth biggest banks, have formally announced an agreement to merge. The new entity would become the biggest Chilean bank, with capital and reserves estimated at \$2.65bn and a loan portfolio of \$7bn, making it one of the 15 biggest banks in Latin America.

The announcement of the merger, which had been expected for many months, was published yesterday, along with notification of an extraordinary general meeting of shareholders of Banco de Santiago for July 3. The latter is expected to seek a listing on the New York Stock Exchange and an ADR programme to allow shareholders to exchange ADRs in Banco O'Higgins for its own ADRs.

Banco de Santiago's shares fell slightly on the Santiago stock market yesterday morning as shareholders were reportedly disappointed at the exchange ratio for the merger, which values Banco Santiago's capital and assets at 55 per cent of the new entity, and Banco O'Higgins' at 45 per cent.

It is not yet clear how the new bank will resolve repayment of a \$1.7bn subordinated debt owed by Banco Santiago to Chile's central bank, the legacy of emergency fiscal aid after the bank, along with most of the system, came near to bankruptcy in the early 1980s. In the case of the Banco de Santiago, the debt amounts to an equivalent of 70 per cent of its current share capital. The majority owner of Banco O'Higgins is O'Higgins, a financial conglomerate controlled jointly by the Luskic group and Banco Central Hispanoamericano de Spain. Imogen Mark, Santiago

Bank of NY sells card portfolio

Bank of New York yesterday said it was selling a credit card portfolio representing about a third of its credit card business to Household International, a US consumer finance company, for \$875m in cash. It said it would use some of the proceeds to buy back up to 10m of its shares, adding to the 10.6m already bought back under a programme announced last November.

The portfolio being sold is the AFL-CIO Union Privilege affinity card portfolio, comprising 2.2m cards. Banco of New York said its contract with the AFL-CIO expires next year, and it had decided to match the terms of a new contract offered by Household International.

The transaction will leave the Bank of New York with 4.4m credit card holders carrying more than \$5m in outstanding credit. The bank said the sale did not affect its plans to expand its remaining portfolio. "We are actively exploring other growth opportunities like the highly successful co-branded cards for Toys 'R' Us and Stop & Shop, introduced in 1995," the bank said. Richard Tomkins, New York

Sidek appoints new chief

Grupo Sidek, Mexico's troubled tourism and real estate conglomerate, has appointed Mr Luis Robollar, former head of Scott Paper's operations in Mexico, as chief executive of both Sidek and its tourism subsidiary Sidek. Sidek is currently trying to satisfy creditors by selling \$3m of non-strategic assets, primarily those belonging to Sidek. Daniel Dombey, Mexico City

Record for Canada's brokers

Canada's brokerage industry, buoyed by active stock markets, posted record commission revenues of C\$949m (US\$684m) in the first quarter, up from C\$808m a year earlier. A strong market for initial public offerings also helped. Overall net earnings were the highest since 1988, at C\$194m against C\$44m. At the operating level, profit rose 46 per cent to C\$514m. Robert Gibbers, Montreal

CANTV plans \$70m revamp

The Venezuelan telecommunications company, Compania Anónima Nacional Telefonos de Venezuela (CANTV), announced a \$70m investment plan to improve the service to its 480 large corporate clients, which make up 70 per cent of its annual sales. CANTV's president, Mr Gustavo Rosson, said that investment in the public telephone service has suffered during the past two years as a result of a shortage of foreign currency. An important share package of CANTV is to be sold later this year. Raymond Collitt, Caracas

Loewen expands with US buy

By Bernard Simon in Toronto

Vancouver-based Loewen Group, the fast-growing funeral home operator, has teamed up with Blackstone Group, the private New York investment bank, to buy Prime Succession, the biggest privately-owned funeral business in the US, for US\$295m.

Blackstone's involvement stems from the strains imposed on Loewen by a \$175m out-of-court settlement which the Canadian company reached earlier this year with Mississippi's O'Keefe family over a breach of contract dispute.

Blackstone will pay \$48m, mostly for common shares, in the joint venture, while Loewen's investment will be \$72m,

mainly for preferred shares. The venture plans to raise debt to cover the rest of the purchase price. Loewen has an option to buy out Blackstone after four years.

Mr Paul Wagler, Loewen's vice-president for finance, said that Loewen wanted to keep the transaction off its balance sheet at a time when its shares were still recovering from the shock of the Mississippi settlement, which was preceded by a jury award of \$500m in damages.

Loewen has raised sizeable amounts in debt and equity in recent months to pay for the settlement and to fund its aggressive expansion drive. Loewen shares climbed C\$1.20 to C\$40.80 in early trading on the Toronto stock exchange yesterday. However, they remain well below the record C\$56 reached before news of the Mississippi judgment broke.

The jury award threatened to push Loewen into bankruptcy protection. Since the settlement, however, the company, which is North America's second-biggest funeral operator, has renewed its acquisition drive.

It has agreed to purchase valued at \$540m so far this year. But Mr Wagler said Loewen planned to be "very tight" about issuing further equity.

The Prime Succession deal will expand Loewen's business by about 15 per cent.

Western lifts Kansas City offer

By Richard Tomkins in New York

Western Resources, the Kansas-based energy company making a hostile takeover bid for Kansas City Power & Light, a utility operating in the same area, yesterday increased the value of its all-paper offer from \$1.7bn to \$1.9bn.

The increased bid was intended to thwart a proposed friendly merger between Kansas City Power & Light and UtiliCorp, another Kansas-based utility, which had made an offer currently valuing Kansas City Power & Light at a little under \$1.7bn.

Western Resources said its new offer was "clearly financially superior" to UtiliCorp's. "This merger makes great business sense, and we must pursue its completion," said Mr John Hays, chairman and chief executive. Kansas City Power & Light's stock was up 1 1/2% to \$27 1/2 in early trading.

Faced with the prospect of increased competition, electricity companies have been trying to drive their costs down by merging with neighbouring utilities.

However, the battle for Kansas City Power & Light is unusual because there have not previously been any hostile bids during the utilities industry shake-out. Under the proposed merger between UtiliCorp and Kansas City Power & Light, a new company would be formed combining the two. Shareholders would receive one share in the new company for each existing share in the old companies. Western Resources is offering \$31 a share, up from \$27 previously to be paid in Western Resources stock. UtiliCorp said its offer remained on the table and it had no immediate plans to respond to Western Resources' increased bid.

ERF takes a through route to Australia

Joining with Western Star gives the UK truckmaker access to an extensive dealer network

UK-based ERF was seeking a way to sell its heavy trucks in Australia when its chairman, Mr Peter Foden, flew to Kelowna, British Columbia, last January.

Kelowna, a popular retirement spot in the foothills of the Rockies best known for its fruit orchards, is home to Western Star Trucks, which, like ERF, caters for the high end of the truck market.

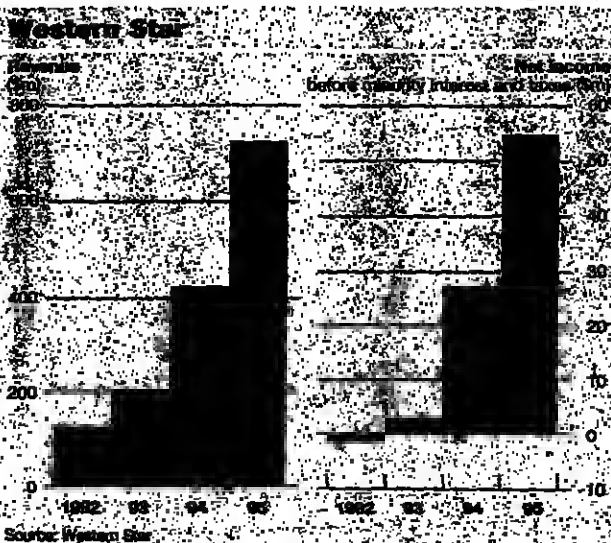
The two companies envisaged a deal that would give ERF a foothold in Australia by using Western Star's extensive dealer network there. The Canadian company would have benefited by adding ERF's "cab-over" trucks without having to set up its own range of bonneted vehicles.

As things turned out, however, Mr Foden's visit sowed the seeds of a more ambitious partnership. Western Star last month made a friendly \$27.4m (US\$42.1m) cash or shares offer for all ERF's 10m common shares, including the 4.2 per cent it already owns.

The deal is expected to be finalised by the end of this month, subject to the approval of at least 90 per cent of ERF's other shareholders. Holders of 48.2 per cent of the shares, including the Foden family, have accepted the offer.

By joining forces, Western Star and ERF hope to expand their product range and penetrate new markets more quickly than either was likely to do by itself. "The thing that attracted us in the first instance is that they build a different truck," says Mr Bradley Stam, president of Western Star.

Although each company will retain a separate identity for the time being, Mr Stam says that "there will be co-operation, co-ordination and integration where benefits can be realised". The acquisition marks Western Star's biggest step since it



Source: Western Star

was rescued from near-bankruptcy in 1991 by Mr Terry Peabody, an Australian whose Brisbane-based group had a license to assemble the Canadian company's trucks in Australia.

The Peabody family also has interests in waste management and the collection and distribution of fly ash, a coal residue used to make cement.

Mr Peabody, 60, spends more time in Brisbane than Kelowna, but his energy and focus - as well as government financial assistance - are given much of the credit for restoring Western Star's fortunes.

Western Star, with earnings of C\$29.1m (US\$21.3m) in the nine months to April 30 on revenues of C\$556.2m, specialises in trucks tailored to customers' requirements, and off-road vehicles for the mining, forestry and oil industries.

"These guys have given me the best service and they have a good product," said one Alberta trucker earlier this month as he toured the Kelowna plant before taking delivery of his new 800-horse-

power behemoth. His truck's features include mock-gold rims on the dashboard gauges, side-window demisters and sleeping quarters behind the cab. Switches in the sleeper allow the driver to start the engine and turn on the heat without getting out of bed.

Western Star's output has grown from five trucks a day at its 1991 nadir to 17 a day now. The 20-acre Kelowna assembly plant has a single-shift capacity of about 25 vehicles, but production has been held back in recent months by teething troubles related to the introduction of a new model series.

Mr Stam, a lawyer who handled the Peabody family's affairs in Seattle before moving to Kelowna a year ago, says production is likely to be back to 23 trucks a day by the end of July. Output will total 4,500-5,000 vehicles in the current fiscal year ending June 30, slightly lower than last year's 5,034. ERF's 1995 output was 5,300.

Western Star has a 6 per cent share of Canada's heavy truck market, and 1 per cent in the US. It claims to have been relatively unaffected by the recent slump in North American truck sales, thanks to new models and a low dependence on big fleet orders.

About 18 per cent of its sales are outside North America, mainly in Australia, New Zealand and Indonesia.

A wider international presence has been a high priority. According to Mr Stam, "to go to the next level, we need much more infrastructure and a daily presence in these markets".

Dealers were recently appointed in Chile, Ecuador and Colombia. ERF's presence in Europe - mainly the UK, Spain and France - as well as its established operation in South Africa were big drawing cards.

Since Mr Peabody's arrival, Western Star has shown a penchant for bottom-fishing. "We have looked for opportunities where there may have been some difficulties, so we don't have to pay an enormous amount," Mr Stam says.

One such opportunity - which also involved government support - was last year's purchase of Ontario Bus Industries, a troubled bus manufacturer with factories in southern Ontario and New York.

Western Star has installed new management, revamped the engineering department

and overhauled assembly lines. According to Mr Stam, the operation is now profitable, with production up from two to 15 buses a week and new orders for several hundred vehicles from New York City, Toronto, Washington DC and various municipalities in the western US.

With the revival of the bus company - now called Orion - not yet complete, Western Star is likely to have its hands full over the next few years.

ERF has been struggling in the fiercely competitive UK truck market. Although Western Star expects to have a minimal physical presence at its new subsidiary, the new owners plan to push for some significant changes. They aim to move ERF more firmly in the direction of the customised, niche market in which Western Star operates.

With both companies relying heavily on North American components, they are likely to pool many purchases in order to increase leverage with suppliers.

Nor has Western Star forgotten what brought the companies together in the first place. If the deal goes ahead as planned, ERF trucks should be on the road in Australia - and several other countries - before long.

Bernard Simon

Notice of Interest in The United Mexican States Collateralized Floating Rate Bonds Due 2019

THE GERMAN PFANDBRIEF

Progress Report for Investors

Evolution and revolution for the German Pfandbrief

Growing acceptance among international investors worldwide

1995 was a year of evolution and revolution for the German Pfandbrief market, which with a total of DM 1.258 trillion outstanding at the end of 1995 constitutes the largest individual segment of the German fixed income market of over DM 3.6 trillion.

In terms of the evolution of the Pfandbrief market, 1995 was a record breaking year for the gross sales of the bonds, with a total of DM 325 billion issued, a 28% increase over 1994's total of DM 253 billion, and a 5% increase over the previous record of DM 309 billion established in 1993.

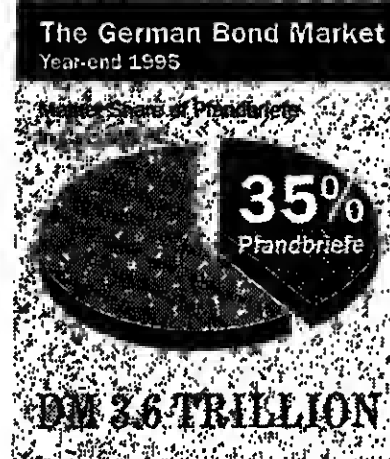
While the increase in issuing volumes in 1995 testified to the ever-expanding importance of the Pfandbrief market, more significant than the absolute growth was the revolutionary change in the structure of the market. This came in the form of the emergence of the new "Jumbo" Pfandbrief, which at a stroke offered local and international investors greatly enhanced liquidity and transparency.

The new "Jumbo" Pfandbriefe differ from their traditional predecessors in a number of important ways. First and foremost, while the typical size of traditional Pfandbrief issues ranges from between DM 50 million and DM 500 million (with some issues even as small as DM 10 million), the minimum size for a Jumbo issue has been set at DM 1 billion. Between May 1995, when Frankfurter Hypothekenbank kick-started the new Jumbo market with a DM 1 billion issue, and mid-May 1996, a total of DM 86.5 billion of Jumbo issues had been launched with an average size of DM 1.52 billion. The largest individual issue by mid-May 1996 was the DM 5 billion Pfandbrief launched in January by DePa-Bank in Wiesbaden. By the end of 1996, the total volume of Jumbo Pfandbriefe outstanding is expected to have reached the DM 110-120 billion level.

A second important feature of the new Jumbo market is that in order to be eligible for the "Jumbo" definition, new issues must have at least three market makers permanently quoting two-way prices, with bid-ask spreads varying from between five and 10 Pfennigs depending on the maturity of the individual issue.

A third important by-product of the development of the Jumbo Pfandbrief market has been that it has helped to emphasize the very clear differences between the German Pfandbrief sector and the mortgage-backed markets of several other economies with which the instrument is frequently (but mistakenly) compared. Because of the size of each issue, the vast majority of transactions in the Jumbo sector of the market have been Public Pfandbriefe (bonds collateral-

ized against loans to the public sector, rather than Mortgage Pfandbriefe (which are collateralized against a pool



of residential mortgages). This is because German law dictates that each and every new Pfandbrief issue must be matched by new lending.

By mid-May 1996, almost 95% of the DM 86.5 billion Jumbo Pfandbrief market was accounted for by Public Pfandbriefe, and of the 58 Jumbo bonds to have been issued by that date, only four were classified as Mortgage Pfandbriefe. In other words, the new Jumbo Pfandbrief market has had very little to do with the German mortgage market. More than nine times out of 10, an investor buying Jumbo Pfandbriefe will be gaining exposure to the equivalent of German government risk, while still benefiting from a pick-up in yields over federal government bonds (Bunds).

Jumbo Pfandbriefe enrich the scope of the German bond market

A significant by-product of the development of the new Jumbo sector has

been the considerable enrichment of the scope and diversity of the German fixed income market. Historically, Pfandbrief investors demanded (and were given) a substantial pick-up in yields over German government bonds in order to compensate for the perceived absence of liquidity in the Pfandbrief market - a pick-up which in some periods rose to 50 basis points and more.

The emergence of the Jumbo Pfandbrief market has meant that for eligible issues of DM 1 billion and more, this liquidity premium has become an anachronism. As a result, the yield differential between traditional Pfandbrief issues and the new Jumbo deals became especially pronounced during the first quarter of 1996, during which time the spread between Jumbo Pfandbriefe and Bunds narrowed sharply, from 25.6 basis points at the beginning of January to 12 basis points by the end of March. In spite of the reduction in the pick-up over Bunds which is now available in the Jumbo market, this double-digit spread over government securities still represents outstandingly good value, given that there is little (if anything) to choose between the two in terms of credit quality.

Given the unrivalled track record of the Pfandbrief in terms of security, however, many yield-hungry investors are already indicating that they would prefer to maintain their tried and tested exposure to traditional Pfandbriefe rather than surrender the extra basis points through buying Jumbo bonds. Either way, it is clear that investors now have a much greater choice in the German fixed income market than ever before.

Trading systems enhance transparency

While the emergence and rapid development of the new Jumbo sector of the Pfandbrief market has inevitably generated substantial levels of interest both within Germany and internationally, it is a mistake to interpret the advent of the Jumbo Pfandbrief as the only critical breakthrough in the expansion of the market as a whole. A number of other important initiatives have either been made or are now in the pipeline which are also aimed at improving the transparency and liquidity of the market, and, in turn, its acceptability among international investors.

Early examples of this was the introduction in April 1995 of the

Pfandbrief Price Index PEX and the Performance Index PEXP. The PEX Index is calculated daily and can be called up at any time via the Bloomberg system. Since summer 1995, the Bloomberg GDO (German Domestic Offerings) system has been operating for domestic and international investors and traders not authorized to trade on German stock exchanges.

A more recent initiative which will support the expansion of the Pfandbrief market came at the end of 1995, when the Deutsche Börse AG (German Stock Exchange) introduced the IBIS-R bond quotation and trading system, an extension of the tried and tested IBIS equity trading mechanism.

IBIS-R, which supports both the primary and secondary markets for Pfandbriefe as well as other German fixed interest instruments, replaces the old trading system under which the vast majority of trades took place by telephone between the banks, and therefore offers substantially enhanced market transparency - and hence liquidity - for all market participants. With bid and ask quotes pooled within a single system, transactions can now be conducted on-screen at market prices in real time.

Ownership structure of Pfandbriefe

Historically the German Pfandbrief has predominantly been a domestic investment vehicle, with local insurance companies, banks and private individuals accounting for the lion's share of ownership. Foreign investors, by contrast, have traditionally held no more than about 10% of the market - which compares with their much more active participation in the German government bond market, of which non-German investors account for ownership of between 40% and 50%.

The development of the Jumbo Pfandbrief sector has led to the beginnings of a revolution in the ownership structure of the Pfandbrief market for two clear reasons. First, the enhanced liquidity and transparency in the market have removed the two traditional stumbling blocks to active participation by foreign investors. Second, since the launch of the Jumbo market last May, a number of non-German investment banks have become lead or co-lead bookrunners for a series of Jumbo Pfandbrief transactions. In the first quarter of 1996, bookrunning of Pfandbrief issues by foreign banks accounted for 28.8% of the total raised in the Jumbo Pfandbrief market, compared with a share of just 15.8% in the whole of 1995.

As a direct result of these two developments, foreign ownership in the Jumbo Pfandbrief sector of the market is now far higher than in the traditional sector. Speaking at a recent conference in Düsseldorf, Dr. Walter Dieck, President of the Association of German Mortgage Banks, estimated that foreign investors' share of the Jumbo market now stands at between 20% and 25%, compared with just 10% in the traditional sector.

The German Pfandbrief in a nutshell

The Pfandbrief - for which there is no meaningful English translation - is a German bond issued by a select group of specially authorized banks under a strict legal framework dating back almost 100 years. Germany's Mortgage Bank Act (enacted in 1900) and its Public Sector Pfandbrief Act (of 1927) limits the issuance of Pfandbriefe to 24 pure private mortgage banks, three mixed private mortgage banks, 12 regional Landesbanks and six institutions officially classified as "public sector banks with special tasks". As of the end of 1995, 59.7% of Pfandbriefe outstanding was accounted for by private mortgage banks, with the remaining 40.3% the domain of public-sector issuers.

An illuminating measure of the security offered by the Pfandbrief market is that in its entire history, no Pfandbrief issuer has ever defaulted on its obligations. The collateral backing

1995 - The year of the Pfandbrief

A strong year for Germany's private mortgage banks

While the strength and increased popularity of the Pfandbrief in 1995 and the early months of 1996 were helped by the emergence of the Jumbo sector and a benign interest rate environment, the underlying resilience of the market is for the most part a reflection of the robust state of the German private mortgage banking industry. German law dictates that the volume of new funds raised through the Pfandbrief market by mortgage banks must at all times match the demand for new lending - either to the public sector or to individual or commercial mortgage borrowers. Though demand for mortgages slipped slightly in 1995, by 6%, this

small decline was more than compensated for by a sharp expansion in the demand for public sector loans, which rose by 70%. This left the overall increase in total commitments in 1995 up by 34.4%, following a decline in 1994 of 14%. As a result, a total of DM 241.6 billion in new bearer and registered bonds were sold by Germany's private mortgage banks in 1995, which helped the sector to raise its share of the total domestic bond market to 35% - a sharp increase over the share of just 21% which was recorded in 1993 following German reunification and the surge in issuing activities of the public sector.

Germany's Mortgage Banks in Perspective

Year-end 1995

	Total Germany DM billion	Mortgage Banks DM billion	Market Share %
ISSUING			
Domestic bonds outstanding	3,213.4	824.1	25.6
Domestic bank bonds outstanding	1,949.6	824.1	42.3
Pfandbriefe outstanding	1,257.5	751.0	59.7
LENDING			
Residential property	1,303.8	288.1	22.1
Commercial real estate Federal, state, municipal governments	311.2	158.1	50.2
	759.6	323.6	42.6

GERMANY'S MORTGAGE BANKS

- OEPFA-BANK, WIESBADEN
- BAYERISCHE VEREINSBANK AG, MÜNCHEN
- HYPO-BANK, MÜNCHEN
- FRANKFURTER HYPOTHEKENBANK
- CENTRALBODEN AG, FRANKFURT
- DEUTSCHE HYPOTHEKENBANK FRANKFURT AG, FRANKFURT
- RHEINHYF, FRANKFURT
- DEUTSCHE GENOSSENSCHAFTS HYPOTHEKENBANK AG, HAMBURG
- BAYERISCHE HANDELSBANK AG, MÜNCHEN
- WESTHYF, DORTMUND
- HAMBURGER HYF, HAMBURG
- MÜNCHENER HYPOTHEKENBANK EG, MÜNCHEN
- SÜDDEUTSCHE BODENKREITBANK AG, MÜNCHEN
- WÜRTEMBERGER HYPO, STUTTGART
- BERLIN-HANNOVERSCHE HYPOTHEKENBANK AG, HANNOVER
- HYPOTHEKENBANK IN ESSEN AG, ESSEN
- BERLIN HYF, BERLIN
- ALLGEMEINE HYPOTHEKENBANK AG, FRANKFURT
- NÜRNBERGER HYPOTHEKENBANK, NÜRNBERG
- DEUTSCHE HYPOTHEKENBANK (ACT. GES.), HANNOVER
- RHEINBODEN HYPOTHEKENBANK AG, KÖLN
- LÜBECKER HYPOTHEKENBANK AG, LÜBECK
- NORDHYF, HAMBURG
- CLF HYPOTHEKENBANK BERLIN AG, BERLIN
- BRG HYPOTHEKENBANK AG, FRANKFURT
- WL-BANK, MÜNSTER
- M.M. WARBURG & CO HYPOTHEKENBANK AG, HAMBURG
- WÜRTEMBERGER HYPOTHEKENBANK AKTIENGESELLSCHAFT, LUDWIGSBURG

For further information about German Pfandbriefe please contact: Verband Deutscher Hypothekenbanken, Bonn, Fax (228) 9 59 02 44.

COMPANIES AND FINANCE: UK

Forte's finance chief to join WH Smith

By David Blackwell

Mr Keith Hamill, who was widely admired for his part in Forte's defence against Granada's £3.9bn (\$5.96bn) hostile bid, is to become finance director of WH Smith.

Mr Hamill, 43, graphically described the state of the Forte camp when news of the bid broke as like "being on the Titanic when the iceberg struck". But he rapidly became a key aide to Sir Rocco Forte in the struggle to survive, leading the finance team through a month of 14-hour days for six or seven days a week.

As the final hope of survival faded, Mr Hamill continued the nautical metaphor, telling staff: "Our company is going down. However, I am proud to report that it has gone down with every gun blazing."

He is joining WH Smith at a critical point in its fortunes. Last week the group announced the outcome of its long-awaited strategic review,

launching plans to revitalise its position in the high street through a sweeping overhaul of its retail stores.

Mr Hamill - a stocky, bespectacled man with a keen sense of humour and down-to-earth manner - joins the WH Smith board next month and takes up the finance director's duties from September 1 when Mr John Napier, 58, retires.

Analysis welcomed the appointment. "A shot of sterner financial disciplines would not be a bad thing," said one. Another described him as "very upbeat and proactive - he brought a burst of fresh energy to Forte during his couple of years there."

A former colleague said Mr Hamill's great skill was solving problems, adding: "This was the job he wanted rather than the job he needed."

Mr Jeremy Hardie, chairman of WH Smith, said Mr Hamill's "experience and success in restructuring businesses and

the development of financial and IT process, coupled with his strategic and investor relations skills" would be of great benefit to the group.

Mr Hardie added that Mr Napier was "retiring on a high note" after the recent disposals of WH Smith Business Supplies and Do It All.

Mr Hamill joined accountants Price Waterhouse on leaving Nottingham University, where he read politics, rose to partner, and worked as an auditor on the Guinness account at the time of its 1986 bid for Distillers.

He was called as a witness in the subsequent trial of Mr Ernest Saunders, the former Guinness chairman, over the conduct of the bid.

He was recruited to Guinness itself in 1989 by Sir Anthony Tennant, then chairman of the drinks company, and rose to be finance director of United Distillers, its spirits subsidiary, before joining Forte as in September 1993.

LEX COMMENT

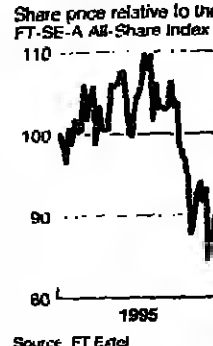
British Steel

Sir Brian Moffat, British Steel chairman, rather gave the game away yesterday when he compared last year's £1.1bn profits to those of the previous peak in 1988-90. The only question now is how rapidly profits will decline this time round.

The industry background is mixed at best. British Steel expects prices to firm after nearly a year of weakness, pointing to an end to UK destocking and buoyant underlying demand in Europe and Asia. But the steel industry's problem, particularly in Europe, has always been oversupply rather than lack of demand. German and French steel producers are still on short-time working in an effort to clear excess stocks. The experience in the US - which tends to be six months ahead of Europe - suggests any bounce in steel prices will be modest if it comes. Moreover, British Steel is facing higher raw material costs and a strengthening British pound.

Nor is British Steel that different a company from when it entered the last downturn. Despite all the cost cutting, last year's profits were not very different from the £733m in 1989-90, once one adjusts for inflation and acquisitions. The group is still highly cyclical and makes four-fifths of its sales in Europe. It has some promising US investments, but has found it difficult to break into Asia. British Steel does have £800m of net cash. But with its management facing a 40 per cent decline in earnings per share this year and only expecting cash flow to be neutral, a share buy back or another dividend increase look highly unlikely. That leaves the shares with few attractions.

British Steel



Source: FT Intel

Acquisitions and strong demand lift British Steel

By Stefan Wegstl, Industrial Editor

British Steel yesterday posted record full-year profits of £1.1bn (\$1.68bn), buoyed by acquisitions and strong demand in the first half of the year.

Turnover rose 47 per cent to £7.05bn, thanks mainly to the purchase of a controlling stake in Avesta Sheffield, the stainless steel maker, which was consolidated in the second half of the year, and the first full-year contribution from United Engineering Steels, the Sheffield-based company. Excluding acquisitions, turnover rose 10 per cent.

The acquisitions also

affected operating costs, which rose 41 per cent to \$6.1bn. However, the underlying increase was just 4 per cent.

Setting aside the acquisitions, the payroll fell by 850, reflecting the company's continuing determination to cut costs. Overall staff numbers increased from 46,300 to 53,900.

The company made capital investments of £26m, including in Trico, its steelmaking joint venture in the US, and in modernisation at Avesta. It also boosted its net cash position by £561m to £690m in the current year, as spending on Trico peaks.

The increased final dividend

of 7p, makes a total payout of 10p, up 33 per cent from 7.5p. Earnings per share were 38.25p (33.21p).

UK deliveries totalled 7.3m tonnes as the company increased its market share to 58 per cent at the expense of importers which were suffering from the effects of sterling's weakness.

In continental Europe, deliveries rose to 4.1m tonnes from 3.5m tonnes, due to the acquisitions. Outside Europe, deliveries were 2.7m tonnes (2.3m tonnes), again thanks to acquisitions. Average revenues per tonne, rose 33 per cent to £419. Without the acquisitions, revenues per tonne rose 10 per cent to £348.

Zeneca in US deal

By Daniel Green

Zeneca, the UK's third largest pharmaceutical company, has made a rare foray into the world of biotechnology by signing an agreement with US company Incyte Pharmaceuticals.

The deal, a set of subscriptions to huge databases in genetics, will cost Zeneca between £5m and £7m (\$10.7m) a year indefinitely.

Unlike most other large pharmaceutical companies, Zeneca rarely joins forces with biotechnology companies.

It has signed only three deals in the past two years - with Stigen and Boston Life Sci-

ences of the US and Celltech in the UK.

Rivals, such as SmithKline Beecham of the UK, typically conclude dozens of biotechnology company each year. Zeneca's top management has been seeking to do more in the area.

Mr David U'Pritchard, research director for Zeneca pharmaceuticals, said the incyte deal would help Zeneca build up its in-house research in genomics - the use of genetic information.

Mr U'Pritchard said that the information would help the company "identify and validate new research targets"

FIDELITY FAR EAST FUND
Société d'Investissement à Capital Variable
Kansallis House - Place de l'Etoile
L-1021 Luxembourg
R.C. 16926

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the Annual General Meeting of the Shareholders of the Fidelity Far East Fund, a société d'investissement à capital variable organised under the laws of the Grand Duchy of Luxembourg (the "Company"), will be held at the registered office of the Company, Kansallis House, Place de l'Etoile, Luxembourg, at 11.00 am on June 25, 1996, specifically, but without limitation, for the following purposes:

1. Presentation of the Report of the Board of Directors.
2. Presentation of the Report of the Auditor.
3. Approval of the balance sheet and income statement for the fiscal year ended February 29, 1996.
4. Discharge of the Board of Directors and the Auditor.
5. Election of six (6) Directors, specifically the re-election of Messrs Edward C Johnson 3rd, Barry R J Bateman, Charles T M Collis, Charles A Fraser, Jean Hamilius and H F van den Hoven, being all of the present Directors.
6. Election of the Auditor, specifically the election of Coopers & Lybrand, Luxembourg.
7. Declaration of a cash dividend in respect of the fiscal year ended February 29, 1996.
8. Consideration of such other business as may properly come before the Meeting.

Approval of items 1 through 8 of the agenda will require the affirmative vote of a majority of the shares present or represented at the Meeting with no minimum number of shares present or represented in order for a quorum to be present.

Subject to the limitations imposed by the Articles of Incorporation of the Company with regard to ownership of shares which constitute in the aggregate more than three percent (3%) of the outstanding shares, each share is entitled to one vote. A shareholder may act at any meeting by proxy.

BY ORDER OF THE BOARD OF DIRECTORS
April 16, 1996

RPS Residential Property Securities No. 3 PLC

Class A2 Notes
Mortgage Backed Floating Rate Notes due 2025

Notes are hereby given that there will be a principal payment of \$1.0m per \$10,000 Note pursuant to Class A2 of the Notes on the interest payment due 25th June 1996. The principal amount outstanding on 25th June 1996 will therefore be \$1.0m per Note.

RPS Residential Property Securities No. 3 PLC

Class A1 Notes
Mortgage Backed Floating Rate Notes due 2025

Notes are hereby given that there will be a principal payment of \$1.0m per \$10,000 Note pursuant to Class A1 of the Notes on the interest payment due 25th June 1996. The principal amount outstanding on 25th June 1996 will therefore be \$1.0m per Note.

Capital One Master Trust
U.S. \$300,000,000

Floating Rate Class A Certificates, Series 1995-2

For the interest period 17th June, 1996 to 15th July, 1996 the Certificates will carry an interest rate of 5.60609% per annum with an amount of U.S. \$43.50 payable per U.S. \$10,000 denomination and U.S. \$436.03 per U.S. \$100,000 denomination, payable on 15th July, 1996.

Union Bank of Switzerland
London Branch Agent Bank
13th June, 1996

ODEBRECHT HIGHLIGHTS - 1995

ECONOMIC WEALTH PRODUCED

In millions of US\$

Payment of Third Parties . . . \$ 2,530
Suppliers and Independent Contractors

Compensation for Work . . . \$ 671
Odebrecht Members

Government Revenue . . . \$ 414
Taxes, Tariffs and Contributions

Return on Equity . . . \$ 197
Shareholders

Performance results from the high-quality, productive work of the Odebrecht Group's Members, who thereby fulfill their Social Responsibility.

INVESTMENTS
Commitment to the future

Creating job and development opportunities for people and society.

Investment commitments during the year:

Year	In millions of US\$
1985	11
1990	31
1995	499

GLOBALIZATION

Odebrecht is a Confederation of Entrepreneur-Partners who work in a variety of businesses and locations with globally competitive vision, alliances and standards.

Engineering Companies: operation in 22 countries:
Angola, Argentina, Bolivia, Botswana, Brazil, Chile, China, Colombia, Ecuador, Germany, Laos, Malaysia, Mexico, Mozambique, Peru, Portugal, Singapore, South Africa, the United Kingdom, the United States, Uruguay and Venezuela.

Chemicals and Petrochemicals companies: exportation of products to 55 countries.

REVENUES - US\$ 3,820 million

Service 1,990
Manufacturing 1,830

Brazil 2,376
USA and Europe 721
Other Countries 723

PROFIT AND NET WORTH

In millions of US\$

Net Profit* 203
Net Worth** 2,784

*After tax and before deducting minority shareholders' equity and statutory participation
**Net worth includes shareholders' equity

MANUFACTURING
Chemicals and Petrochemicals
2,150 million tonnes

In thousands of tonnes

Thermoplastic Resins 1,189
Polypropylene, polyethylene and polyolefinic specialties 765
PVC 424

Soda 467
DCE (o-Chloroethane) 494

Pulpwood Forestry
16,000 hectares planted, with average annual growth of 46 solid cubic meters per hectare of eucalyptus forest.

ADDITIONAL RESPONSIBILITY TO THE COMMUNITIES' EDUCATION AND CULTURE

ODEBRECHT FOUNDATION

- Supported 18 Educational Programs for Adolescents and held the Odebrecht Foundation Award based on the theme "Teens for Better Schools" in partnership with UNICEF. The awards program directly mobilized 137,140 adolescents, 8,069 professionals and 908 institutions.
- Sponsored stage two of the "Only the Schools Can Make Brazil Right" campaign to improve basic schooling, also in partnership with UNICEF. The TV campaign reached 121 million viewers.

CULTURAL CONTRIBUTION

- Publication of the book: *The Voyager's Brazil: End - The Life of Plans in Yoruba Society* (Pete Verger, Proclaman Truitt).
- Revision and republication of the works of Jorge Amado.
- Release of the CD *Tom Jobim - Inedita* (o-bim - Unheard).

DIVERSIFICATION

CORPORATE STRUCTURE	SERVICE	MANUFACTURING	SUPPORT COMPANY
Odebrecht S.A. (holding company) plus 107 subsidiaries and affiliates.	<ul style="list-style-type: none"> Engenharia CNO - Construtora Norberto Odebrecht S.A. (24 companies) Companhia Brasileira de Projetos e Obras - CBPO (23 companies) Tunenge - Técnica Nacional de Engenharia S.A. (22 companies) Telecomunicações e Automação Strela-Telecom Ltda. CMW Equipamentos S.A. 	<ul style="list-style-type: none"> Química e Petroquímica Odebrecht Química S.A. (19 companies) OPP Petroquímica S.A. CPC Companhia Petroquímica Carnaúba Salgema Indústrias Químicas S.A. 	<ul style="list-style-type: none"> Copene - Petroquímica do Nordeste Copelul - Companhia Petroquímica do Sul Uninar - União das Indústrias Petroquímicas S.A. Petrobras - Indústria de Refino Vera Cruz Florestal Ltda. OCS - Odebrecht Administradora e Construtora de Seguros Ltda.

COMPANIES AND FINANCE: UK

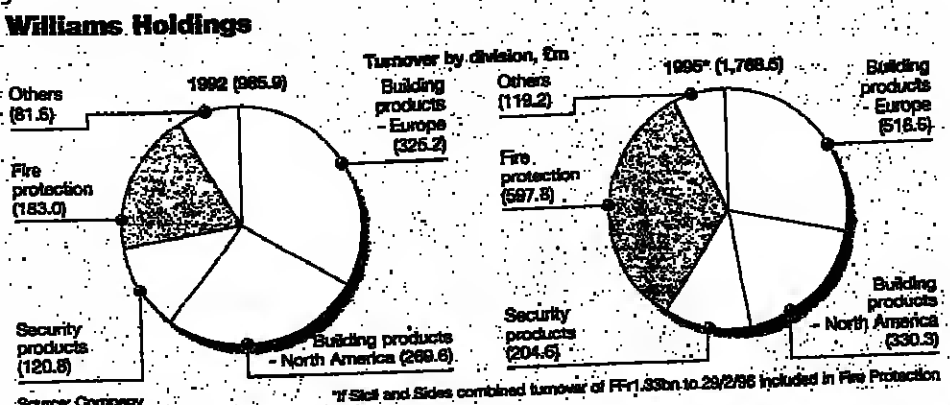
A hot future in fire protection

Ross Tieman analyses Williams stance as a focused conglomerate

A shell fragment bursts through the side of an aircraft or tank and in the time it takes to blink an explosion is triggered and extinguished. The machine and crew are saved.

This is a demonstration of the high-tech edge of fire protection, the £6bn a year business in which Williams Holdings is a world leader.

Making equipment to stop, detect and extinguish fires is opening doors to growth and a much-needed re-rating for Williams.



Until last month, Rawplugs, Polyfilla, paint and other building products accounted for more than half the group's £1.6bn annual sales. Williams is breaking away from dependency on the construction and building cycles by building a global business by welding together companies plucked from the fragmented fire equipment market. Its fire protection division now counts sales of £700m a year.

With last month's £175m purchase of Sitch and Siddes in France, its products range from fire detection systems, through industrial fire-fighting equipment, to fire engines and domestic extinguishers.

These markets are growing at 5-15 per cent a year, partly as a result of increasingly tough regulations. Williams has achieved savings by spreading research and development across a broader base, and using the distribution systems it acquires to intro-

duce existing products into new markets.

It claims 12 per cent of the world fire equipment market. Tyco International of the US is a rival in industrial and portable extinguishers; Nohmi Bosai and Hochiki of Japan are strong in industrial detectors and panels; Chubb (UK) and Cerberus of Switzerland are also significant competitors. But no other company offers the range of equipment that Williams does.

However, analysts question Williams' claim to be Britain's first focused conglomerate. "You can't really become focused just by bundling everything into four divisions," says one.

Mr Roger Carr, Williams' chief executive, accepts that his company, like rivals Tomkins, Hanson and BTR, grew by opportunism. "We all started in the same place: buy

what you can, sort it out, and move on," he says. Now, "our aspirations are to build businesses internationally."

At the consumer end, where disposable extinguishers sell in DIY sheds, there is a link between fire-fighting equipment, locks and building products. But even within the fire division, equipment is sold to buyers as varied as local authorities, aircraft makers and building engineers. Door-chimes, made by Williams' US subsidiary NuTone, are not on their shopping list.

The benefits of running fire, security and building products in parallel are strictly limited. But Mr Carr rejects suggestions that the company should demerge. "The whole issue of demerger is when you decide we at head office bring nothing to the party," he says. "We are still adding value. The opportunity to take a Sitch, to buy it

and integrate it - those are things that come from Williams."

For its claim of a focused strategy to be credible, Williams will have to take tough decisions on the future of peripheral businesses. Analysts say the home improvement companies look increasingly out of place. In that case NuTone; Smallbone, the fitted kitchen specialist; Amdega conservatories; Dreamland electric blankets; Larchlap fencing and several more may all be on the block.

At the end of 1995, Williams sold its Cortworth engineering subsidiary to management for £40.2m, retaining 19 per cent to capitalise on future growth. Cortworth floated last year with a 57.5m price tag, valuing Williams' interest at £33.6m. Now Williams is set to divest its electronics business. More may follow.

Former director at Chiroscience to sue

By Clive Cookson, Science Editor

Mr Nowell Stebbing, one of the UK's best-known pharmaceutical entrepreneurs, is taking legal action against Chiroscience, the company he steered to a stock market flotation in 1994.

His writ against Chiroscience alleges that he was wrongfully dismissed as the company's deputy chairman in August. He is also claiming damages for the wrongful removal of share options worth £3.5m-£5.5m (\$6.4m).

Mr Stebbing is now guiding Cambrio, a new pharmaceutical company, to a flotation next month.

Chiroscience did not mention the writ - issued in February when it raised £90m in a share placement last month.

"The group believes his claim has no merit and the board has been advised that he is unlikely to succeed," Chiroscience told the Financial Times.

"Accordingly, the board believes this dispute will not have any significant impact on the group's financial position and therefore does not consider it to be material."

Thomas Cook set for Sunworld buy

By David Blackwell

Thomas Cook, the high street travel agent that has a stake in holiday operator First Choice, is expected later this week to announce the £40m (\$61.2m) acquisition of Sunworld.

Sunworld, privately owned by a Spanish group, has about 5 per cent of the UK package holiday market, making it the fifth largest after Thomson, Airtours, First Choice and Cosmos-Avro. It already supplies holidays for Thomas Cook, and is featured in the group's brochures.

The acquisition is seen as key to giving Thomas Cook the vertical integration that Thomson and Airtours already enjoy through their respective ownership of travel agencies Lunn Poly and Going Places.

The deal has been rumoured for several months, but is understood to have been complicated by the link with First Choice. A planned strategic alliance between Thomas Cook and First Choice collapsed 18 months ago, although the agent still sells more than 15 per cent of First Choice holidays.

Thomas Cook, which is

wholly owned by West-deutsche Landesbank, the Düsseldorf-based state-owned bank, is understood not to be announcing the sale of its 11 per cent stake in First Choice this week. But analysts believe a final exit is only a matter of time, and would make even more sense once Sunworld has been acquired.

In 1993 Thomas Cook held a 21 per cent stake in First Choice after helping it to defeat a hostile bid from Airtours. But the alliance always promised far more than it ever delivered.

Since its collapse, at the end of 1994, Thomas Cook has reduced its stake, mainly by not participating in a £44.1m rights issue last October, when First Choice announced profits of just £1.5m after a disastrous summer season.

Tomorrow Airtours announces its interim results, and observers will be watching for signs of how sales for this summer season are going. They could give a guide to expectations for First Choice, which reports in another month. First Choice shares lost 2/5p to 80 1/2p yesterday, well below the 150p paid by Thomas Cook in April 1993.

Company	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current payment (£)	Date of payment	Dividends (p)	Total for year	Total last year
Admiral Printing	71.1 (43.9)	7.76 (3.29)	53.381 (30.8)	2.986	Aug 6	1.5025	5.065	2.342
British Steel	7,048 (4,784)	1,102 (578)	38.228 (22.1)	7	Aug 12	5.5	10.8	7.5
East Surrey	47 (44.5)	156 (14.49)	49.21 (46.8)	12.4	Aug 2	10.7	18.8	15.7
Finlay	42.7 (31.2)	8.55 (6.32)	161 (13.5)	2	Nov 1	1.575	3.5	2.825
London Industrial	14 (8.3)	4.16 (2.43)	21.3 (12.2)	9	Aug 1	0.85	1.5	2.0
Loss Scott Bank	15.8 (13.8)	2.54 (1.89)	20.82 (14.7)	2.75	July 25	0.725	3.5	2.875
Oceanic Doms	6 mths to Apr 30	0.494 (0.142)	31 (2.34)	0.67	July 19	0.8	2	1
Old English Pub	7.76 (5.34)	0.494 (0.142)	10.12 (0.4)	1	July 25	5	8.5	7.5
Pearce	14.87 (11.58)	1.06 (0.116)	18.991 (17.28)	5.7	Aug 12	12.1	18.75	18.75
Starling Inns	68.6 (52.2)	8.11 (7.09)	18.991 (17.28)	12.75	Oct 2	12.1	18.75	18.75
Wagon Industrial	410.3 (343.5)	19.94 (20.94)	23.2 (25.17)	4	Aug 7	4	4	5

GTM-ENTREPOSE is one of the leading groups in the European construction industry with designs, builds, and operates for industry and public and private clients.

With turnover of almost 43 billion French Francs generated in 1995, of which 36% is derived from operations abroad, the Group employs 68,000 men and women in over 70 countries.

Combining an expertise in major projects and over 100 years of experience in its specialities, GTM-ENTREPOSE offers its capacity for imagination and initiative to satisfy the diverse needs of its clients.

CONTACT FOR FURTHER INFORMATION: TEL: (33-1) 46 95 71 86 FAX: (33-1) 46 95 73 79

FINANCIAL DEPARTMENT 61, AV. JULES QUENTIN 92003 NANTERRE FRANCE

GTM-ENTREPOSE

The Annual General Meeting of GTM-ENTREPOSE, held on June 11, approved the financial statements for 1995. Consolidated net income, Group share, stood at FRF 198 million, comparable to 1994's figure.

It was agreed to distribute a dividend of FRF 8 per share (FRF 12 including tax credit), with an option to receive the dividend in shares. This option may be exercised from July 8, 1996, ex-dividend date, to July 30, 1996.

Cash dividends will be paid as of August 9, 1996.

The Annual General Meeting also renewed the terms of Messrs. Jean-Louis BRAULT, Jérôme MONOD, Pierre DELAPORTE, Roland GIRARDOT, Claude PIERRE-BROSSOLETTE as Members of the Board of Directors and appointed Mr. Francis GUTMANN and MOBIL-OIL FRANÇAISE, represented by its Chairman Christian SCHNEEBEL, as new Members.

At the close of the Annual General Meeting, the Board renewed the appointments of Messrs. Jean-Louis BRAULT and Jérôme TOLOT as chief executive officer and chief operating officer, respectively.

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New issue June 1996

All these Bonds having been sold, this announcement appears as a matter of record only



Fried. Krupp Finance B.V.
Amsterdam, The Netherlands

DM 400,000,000
6 1/2 % Bonds of 1996/2003

unconditionally and irrevocably guaranteed by
Fried. Krupp AG Hoesch-Krupp
Essen/Dortmund, Federal Republic of Germany

WESTDEUTSCHE LANDESBANK GIROZENTRALE	DRESDNER BANK - KLEINWORT BENSON DRESDNER BANK AKTIENGESELLSCHAFT	CS FIRST BOSTON EFFECTENBANK AKTIENGESELLSCHAFT
DEUTSCHE MORGAN GRENPELL DEUTSCHE BANK AKTIENGESELLSCHAFT	BANK AUSTRIA	BANKGEGESCHAFT BERLIN AKTIENGESELLSCHAFT
BAYERISCHE LANDESBANK GIROZENTRALE	BAYERISCHE VEREINSBANK AG	BAYERISCHE HYPOTHEKEN- UND WECHSEL-BANK AKTIENGESELLSCHAFT
BFF-BANK	BZW DEUTSCHLAND BRANCH OF BARCLAYS BANK PLC.	BFG BANK AG GROUP CREDIT LYONNAIS
COMMERZBANK AKTIENGESELLSCHAFT	DEUTSCHE GIROZENTRALE - DEUTSCHE KOMMUNALBANK -	CARIPLO S.P.A.
DSL BANK DEUTSCHE SIEDLUNGS- UND LANDESRENTENBANK	GOLDMAN, SACHS & CO. OHG	CG BANK DEUTSCHE GENOSSENSCHAFTSBANK
ISTITUTO BANCARIO SAN PAOLO DI TORINO S.P.A.	LANDESBANK RHEINLAND-PFALZ - GIROZENTRALE -	HSBC TRINKAUS TRINKAUS & BURKHARDT KGAA
MERILL LYNCH BANK AG	LANDESBANK SCHLESWIG-HOLSTEIN GIROZENTRALE LUXEMBOURG BRANCH	NATIONAL WESTMINSTER BANK PLC FRANKFURT BRANCH
SAL OPPENHEIM JR. & CO. KONZERNHYPOTHEKENGESAMT-AUFNAHMEN	JP MORGAN GMBH	SÜDWESTDEUTSCHE LANDESBANK GIROZENTRALE
	SOCIETE GENERALE S.A.	
	SBS SCHWEIZERISCHE BANKGEGESCHAFT DEUTSCHLAND AG	

The SODEXHO S.A. Board of Directors met on June 14 and examined the following points:

1. SALE OF SODEXHO'S INTEREST IN EUREST FRANCE

SODEXHO has agreed to sell its interest in Eurest France to COMPASS for 590 million French francs, in line with the decision taken by the Board after consultation with the Group Executive Committee and the Executive Committee, France.

The agreement effectively terminates the legal action underway concerning COMPASS' acquisition of an interest in EUREST FRANCE.

The decision was made for two reasons:

- SODEXHO was not fully supported by Eurest France management, unlike in the case of recent alliances with GARDNER MERCHANT and PARTENA.
- The offered price appears reasonable and yields a large capital gain, which will strengthen the Group's financial position.

SODEXHO France will pursue its development, thanks to the ability of its teams to provide clients the best service at the best price.

2. NEW CONTRACTS

During the first half of fiscal 1996, SODEXHO was awarded a number of important new contracts in its core businesses.

- France: Headquarters staff restaurants for Nestlé in Noisiel (outside Paris) and for the Caisse Régionale d'Assurance Maladie in Marseille. School systems in Paris and nearby Noisy-le-Grand. The Franco-British Hospital in Levallois-Perret, near Paris.
- United Kingdom: staff restaurants for BAT Industries in London and for a Defence Ministry department in western England.
- United States: The staff restaurant at American Express in Minneapolis and housekeeping services for the Boston Children's Hospital.
- Kazakhstan: Renewal of the Chevron contract with our Allied Support remote site management subsidiary.
- Canada: Management of the Falconbridge nickel mine in Raglan, Quebec.
- Hungary: Sodekho Pass has signed a contract with national oil company MOL to serve 12,000 luncheon voucher users per day.

3. SALE OF PARTENA SECURITY

SODEXHO S.A. recently acquired a 45.6% interest in PARTENA AB, Sweden's leading contract services firm. The other shareholders are FINANCIERE SODEXHO and company management. In addition to food services, cleaning and retirement home services, PARTENA also has a security business, which did not offer as close a fit with our own core competencies. As a result, it has been sold on good terms to FALCK, a Danish security services company.

The sale will allow Partena and its management to focus on growing the activities of PARTENA Cater, PARTENA Clesse and PARTENA Care, which enjoy a great deal of synergy between themselves and with other SODEXHO units, as well as good prospects for development.

4. CHEQUE CARDAPIO

The February 1996 purchase of a 30% interest in Cardapio, Brazil's third largest issuer of service vouchers, will have a positive impact of consolidated earnings for the year ending next August 31. Issue volume is experiencing good growth, in line with forecasts.

5. ISSUE OF BONDS WITH WARRANTS

The May issue of two-billion French francs worth of SODEXHO bonds with warrants attached was well subscribed, with 75% of shareholders exercising their priority rights. The issue enabled us to consolidate the Group's debt, repay part of the debt taken on to acquire Gardner Merchant, and refinance remaining debt at lower rates. Eventually, the securities will also strengthen the Group's equity funds.

6. INTERIM FINANCIAL RESULTS

- Consolidated financial results for the six months ended February 29, 1996 increased considerably from the year before, due to the consolidation of Gardner Merchant over the period. Net sales amounted to 12,398,000,000 French francs, operating income was 561,434,000 French francs and net income after minority interests came to 213,310,000 French francs. Operating margin continued to widen, reaching 4.5%.
- Net sales are expected to end the year slightly above 24 billion French francs, representing organic growth of 8%. The remaining growth will come from the consolidation of Gardner Merchant over the full year. Excluding exceptional and non-recurring items, which are expected to amount to 320,000,000 French francs, consolidated net income after minority interests will exceed 370,000,000 French francs, for an increase of more than 30% over than 284,000,000 French francs reported at August 31, 1995.

Sodexo
We make a world of differences

BP 101 - 78900 SAINT-QUENTIN-YVELINES CEDEX - FRANCE - TEL: (33-1) 30 85 70 00

For further information, please contact Raphael DUBRULE - Corporate Secretary - TEL: (33-1) 30 85 74 74

LAW

Restrictions on dealers outlawed



EUROPEAN COURT

National restrictions on foreign securities dealers are contrary to Treaty of Rome rules on the freedom of establishment and the provision of services, the European Court of Justice has ruled. The ruling followed proceedings brought by the European Commission against Italy for breach of its treaty obligations.

The Commission claimed that certain Italian provisions which had an impact on foreign dealers were contrary to the Rome treaty's provisions on the establishment and the provision of services.

Under the Italian rules, dealers in transferable securities (apart from those in banks) could only carry out their activities in Italy if they had been authorised to do so by the National Commission for Companies and the Stock Exchange. One condition for such authorisation was that the dealer had to be constituted in the form of a limited company which had its registered office in Italy.

Insofar as freedom of establishment was concerned, the Commission submitted that the restriction prevented dealers from other member states from making use of certain forms of establishment, such as branches or agencies. It also discriminated against them by obliging them to bear the additional costs of setting up a new company. The Commission argued that the restriction was disproportionate as it was not necessary for attaining the legitimate aim pursued by the Italian legislation.

The European Court ruled that under the relevant treaty provisions, freedom of establishment was to be exercised under the conditions laid down by the law of the country of establishment for its own nationals. Thus, where access to a specific activity was subject to certain conditions in the host member state, nationals of other member states who wished to carry out the activity in question had, in principle, to comply with those conditions.

However, the treaty provi-

sion outlawed discrimination against nationals of other member states, in particular by domestic rules which were liable to place those nationals in a situation which was less favourable than that of nationals of the host member state.

The Italian government did not deny that the restriction imposed on the freedom of establishment, but claimed that it could be objectively justified. In particular, it was claimed that foreign securities dealers could not be supervised and effectively sanctioned unless they had their principal place of establishment in Italy.

The European Court did not accept that claim. While the restriction facilitated the supervision and control of the dealers, it was not the only means of ensuring compliance with the domestic rules. It was, for example, possible to require dealers to agree to be subject to checks or to supply documentation demonstrating compliance.

Even if the aims of the Italian legislation were to be regarded as covered by the Treaty of Rome public policy exception, that exception could not be relied on as the restriction was disproportionate.

Insofar as the provision of services was concerned, the Commission argued that the restriction entirely precluded the provision of services in Italy by dealers from other member states. It considered that the restriction was neither indispensable nor necessary for achieving the legitimate aims of investor protection and market stability pursued by the Italian legislation.

The European Court found that the obligation on dealers to set up their principal place of establishment in Italy was the very negation of the freedom to provide services. It did not constitute a condition which was indispensable for attaining the aim pursued, for the same reasons as the court had found in respect of the arguments advanced by Italy on freedom of establishment.

C-101/94: *Commission v Italy*, ECJ FC, June 6 1996.

BRICK COURT CHAMBERS, BRUSSELS

Exit door opens a crack at Heinz



Anthony O'Reilly

Speculation about the succession at H.J. Heinz, the US food company, has burst into life again with William Johnson, one of five senior vice presidents, cast in the role of the man most likely to succeed Anthony O'Reilly (above) in the top job.

Until now, Heinz has looked something of a one man band: the Irish-born O'Reilly has held all three top jobs of chairman, president and chief executive. But now O'Reilly, who reached 60 this year, is handing over his president's title to Johnson and creating a new role for him as chief operating officer.

Johnson, a 47-year-old Texan, is credited with two main accomplishments at Heinz: spurring profits growth at the company's Star-Kist tuna unit and successfully integrating the acquisition of Quaker Oats' pet food division.

Heinz says it would be wrong to read too much into his promotion. O'Reilly will not be stepping down for

at least three years, it says, and no succession plan will be devised "until such time as he wishes to proceed down that road."

Four years ago another of Heinz's senior vice presidents, David Scudley, was tipped as a potential successor to O'Reilly, but nothing ever happened: two weeks ago Heinz announced that he was leaving to form a buy-out company with his brothers.

With Johnson's promotion, the three remaining senior vice presidents - William Springer, 56, Luigi Ribolla, 69, and David Williams, 55 - are being promoted to executive vice presidents. *Richard Tomkins*

ICI India posts



George Ewart

ICI's programme of appointing nationals to head its foreign businesses has arrived in India. George Ewart, chairman and managing director of ICI India, is returning to Lon-

don as executive responsible for ICI's regional businesses.

He will be replaced by Ashok Ganguly (pictured left), who will take over as non-executive chairman of the ICI subsidiary, Ganguly, 60, joined Unilever as a management trainee in 1982 - the same year as Ewart joined ICI. He is currently Unilever's director of research and engineering, and has been a board member since 1990.

ICI India's new chief executive will be Aditya Narayan, 44 (right), who has been with the company for 23 years.

Narayan has been working as a corporate planning officer at ICI's London headquarters since March, but before that held a series of senior positions in ICI India, including overseeing divestment of the ICI Fertiliser business in 1993.

Most recently, he was vice president, explosives for ICI India, with responsibility for the explosives business and ICI's establishments in the east of the country.

Ewart, a Scot, joined ICI as a chemist and has been with ICI India since 1990. In his new capacity he will be responsible for overseas businesses that do not fit with its core international activities.

The various appointments take effect from August 1.

T Boone bows out

T Boone Pickens, the legendary corporate raider, is preparing to quit the corporate scene, though his departure comes with less of a bang than a whimper.

The 68-year-old Texas oil man announced last week that he is to step down as chief executive of Mesa, the energy company he founded 40 years ago. Mesa once provided the platform for his assaults on giants of the industry like Gulf Oil and Unocal. His planned departure marks the passing of control to Richard Rainwater, a Texas investor who is in the midst of a financial restructuring of the heavily indebted company.

It was an ignominious end for a man who once struck fear into some of oil industry's most powerful executives. Having placed a huge and unsuccessful bet on natural gas prices with the purchase of part of the massive Hugoton gas field, Pickens has spent much of the 1990s trying to keep Mesa afloat. Since last summer he has also had to fend off attempts from a group of investors to take control of the company, leading eventually to the deal with Rainwater.

The great raider's departure was greeted by a jump in Mesa's share price. Standard & Poor's, the US rat-

ings agency, meanwhile said it expected to raise the company's credit ratings once the recapitalisation of the company is complete. *Richard Waters*

Mitsubishi's Sir Peter



Sir Peter Parker

Sir Peter Parker (left), best known as the former chairman of British Rail, has been named chairman of Mitsubishi Electric Europe, under a restructuring of the Japanese group's European sales and marketing operations.

Sir Peter, 72, is a long time director and current chairman of Mitsubishi Electric UK. One of the rare Japanese-speakers among his generation of British managers, he still finds the energy to chair several other UK companies and organisations, including the court of governors of the London School of Economics.

Mitsubishi Electric Europe has been set up to create a unified approach to sales and marketing across the continent. Its president and chief executive is Tetsuji Taketaka, 54, who was previously in the strategic planning department in Tokyo. *Nina Cassell*

ON THE MOVE

■ **ALGOMA**, Canada's third biggest steel maker, has hired Sandy Adam from Toyota Canada as president and chief executive. Adam, a steel industry veteran, became senior vice-president at Toyota in 1994 to supervise a C800m assembly plant expansion. At Algoma he succeeds Alan Hopkins, with whom he worked closely at Stelco, the second biggest steel producer, in the 1980s.

■ **Steven Scheid**, 42, former principal financial officer for First Interstate Bancorp, has been appointed executive vice-president and chief financial officer of **CHARLES SCHWAB CORPORATION**.

■ **Gerard (Gop) Jansen** has been appointed general manager of **CIGNA's** eastern European region, based in Warsaw. Jansen joins Cigna after 20 years with American International Group (AIG).

■ **Dietrich Ruenker**, deputy management board chairman at **LANDESBANK SCHLESWIG-HOLSTEIN**, takes over as chairman from July 1. He succeeds Walter Schaefer, who will take over the same position at **LANDESBANK HESSEN-THURINGEN**.

■ **Thomas Robinson**, a 25-year **COMPUTER SCIENCES**

CORPORATION veteran, has been named president of **CSC's** technology management group. He succeeds Edward 'Pete' Boykin, who has moved to **The Pinnacle Alliance** in New York at JP Morgan.

■ **William Holden** has been appointed president and chief operating officer of **HALLS MITCHELL FOOD SERVICES**, a division of Sysco, the America food service company. Holden succeeds Edward Hasty, who will become chairman.

■ **Michael Newman**, 47, has been appointed vice-president of manufacturing for **EASTMAN CHEMICAL's** Latin America region.

■ **Nathaniel Mass** joins **GENCORP**, the US manufacturing group, as senior vice-president of strategic growth. He was previously with McKinsey and Co where, as a partner, he led the Business Dynamics Centre.

■ **Steven Webster** and **Paul Lloyd**, respectively chairman and chief executives of **FALCON DRILLING** and **READING & BATES** of the US, have resigned their membership of each other's boards, on the basis that the companies "may be competitors in the future".

■ **Manuel Baez** has been appointed to the newly created position of senior vice

president and president - analytical instruments at **PERKIN-ELMER CORPORATION**. Baez was previously executive vice-president of Baxter International.

■ **Michael Dauda** has been appointed managing director of **COGECO**, a holding company within France Telecom. He replaces Jacques Champagneux, director of France Telecom's corporate division.

■ **William Walker** has resigned as chief executive of **ZILOG**, the US semi-conductor manufacturer. He will be replaced by Robert Collins, previously Zilog's corporate controller.

■ **Horst Bergmann**, 58, chairman, president and chief executive of **Times Mirror's** eight information publishers. **Jepsson Sanderson**, is to take on additional responsibilities as chief executive of **TIMES MIRROR TRAINING**. Edward Johnson, 52, whom he replaces, is leaving the company after 12 years.

■ **Dave Robbins** joins **LEHMAN BROTHERS** as head of emerging markets Brady and Eurobond trading - Lehman's seventh new hire this year in the group. Robbins was previously with Morgan Stanley, where he traded emerging markets instruments, Eurobonds and

other fixed-income products.

■ **Kenneth Davis** has been appointed chairman of **Alexander & Alexander Inc.**, the US risk management consulting and retail insurance broking subsidiary of **ALEXANDER & ALEXANDER Services**.

■ **Polar Tanoos**, 41, has been appointed chief executive of **ASIA PACIFIC RESOURCES INTERNATIONAL HOLDINGS**, a pan-Asian producer of pulp, paper and rayon fibre, based in Singapore. He will continue to serve as deputy chairman.

■ **William Ris** has been elected vice-president of government affairs for **AMERICAN AIRLINES**. He succeeds Edward Faberman, who has left the company.

■ **Neal Crowe** becomes UK managing director of **AKERLAND & RAUSING**, the packaging group. He joins from **Sidlaw Flexible Packaging**.

■ **Richard Ross** has been appointed vice-president, finance and chief financial officer of **INMINT MINING**, the former mining arm of Metallgesellschaft. He was previously vice-president, treasurer.

■ **David Eldon**, chief executive of Hongkong and Shanghai Banking Corp, a unit of **HSBC Holdings**, joins the board of **SWIRE PACIFIC**. He replaces John Gray, who resigned

following his retirement as Hongkong Bank's chairman and chief executive.

■ **Shang FuLin** and **Chen Yaolin** have been appointed vice-governors of the **PEOPLE'S BANK OF CHINA**.

■ **Richard Carrion**, chairman, president and chief executive of Banco Popular de Puerto Rico, has been elected chairman of the **INTERNATIONAL FINANCIAL CONFERENCE**.

■ **Kevin Burns** becomes president of **WESTINGHOUSE Security Systems**, a subsidiary of Westinghouse Electric Corporation.

■ **Martin Loeffler** rises to chief executive of **AMPHENOL**, manufacturers of connectors, in addition to his current responsibilities as president.

■ **Fant Björqvist**, 48, chief executive of **Nedlloyd Lines**, joins the executive board of **ROYAL NEDLLOYD** from July 1. H.J. Halb retires on January 1.

■ **David Pendergast** joins **BIOGEN** as vice-president - quality assurance and quality control. He was previously director, quality assurance/quality control of **Fisons**.

■ **Aporn Chewakrengchai** has been appointed chief economist at **DEUTSCHE MORGAN GRENPELL SECURITIES (Thailand)**. Aporn was previously with Thailand's

National Economic and Social Development Board, where he was director of economic analysis and projection.

■ **Graham Searle**, 44, joins the London-based security and specialty printing division of **MDC CORPORATION** of Toronto, as president and chief operating officer. He was previously director of security printing in Europe, for **Thomas De La Rue**.

■ **Takashi Tanaka** is to resign as chairman and become an adviser at the **BANK OF YOKOHAMA**.

■ **Thomas Dickerson** has been named president of **GENERAL MOTORS ACCEPTANCE CORPORATION** of Canada, succeeding James Watson, who is retiring. Three new area vice-presidents - **Tommy Fritchard**, **Joseph Taylor Jr.** and **David Borchelt** - will be based in Los Angeles, Dallas and Atlanta.

From Monday to Friday. Sometimes also at weekends. From 8.30 a.m. to 5.30 p.m. Often later. In spring, summer, autumn and winter.

■ A year's work. On balance.

DM million	1995	1994	1995	1994	1995	1994
Balance Sheet Total	79,729	64,001	Secured Liabilities	36,085	31,347	331.3
Claims on Customers	44,468	37,313	Liabilities to Banks	16,329	12,101	-130.5
- secured by mortgages	12,044	13,415	Liabilities to other Customers	17,754	12,596	-112.1
- unsecured loans	22,857	23,898	Total Capital (including reserve)	1,671	1,689	99.2
Claims on Banks	13,369	13,017	Number of Employees	735	779	59.3
Administered Funds (trustee funds/special-purpose funds)	5,027	5,185				
Total New Loan Commitments	15,719	10,749				

Of course, we'll be glad to send you all the facts and figures in our 1995 Annual Report. DSL Bank: 53175 Bonn, Kennedyallee 62-70, Phone: +49 (0)228/ 889243, Fax: +49 (0)228/889624, BTX *67889#, Berlin, Bielefeld, Dortmund, Dresden, Düsseldorf, Erfurt, Frankfurt, Hamburg, Leipzig, Magdeburg, Munich, Münster, Schwerin, Stuttgart and Luxembourg. And, from August 1, also in Hanover.

FINANCIAL TIMES

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EUROPEAN INVESTMENT BANK

ITL 1,000,000,000 FRN 1998-2000

In accordance with the provisions of the Notes, notice is hereby given as follows:

- Interest period: June 17, 1996 to September 15, 1996
- Interest payment date: September 15, 1996
- Interest rate: 8.54375% per annum
- Coupon amount: ITL 107,984 per note of ITL 5,000,000
- ITL 1,079,835 per note of ITL 50,000,000

Agent Bank: **BANQUE INTERNATIONALE A LUXEMBOURG**

Yasuda Trust and Banking (Luxembourg) S.A.

US\$ 50,000,000 Floating Rate Guaranteed Notes Due 2000 with Fixed Rate Option

Guaranteed by The Yasuda Trust and Banking Company, Limited

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest for the interest period 18th June 1996 to 18th December 1996 has been fixed at 6.19588% p.a. The coupon amount payable on 18th December 1996 will be US\$ 157.50 per US\$ 5,000 Note.

The Yasuda Trust and Banking Company, Ltd. London Agent Bank

European Investment Bank

FTF 20,000,000,000 Floating Rate Bonds due 2001

For the three months 17th June 1996 to 16th September 1996, the Bonds will carry an interest rate of 6.97% per annum with an interest amount of FTF 1,738 per FTF 100,000 Bond, FTF 17,377 per FTF 1,000,000 Bond, FTF 173,775 per FTF 10,000,000 Bond and FTF 868,863 per FTF 50,000,000 Bond, payable on 16th September, 1996, in respect of Coupon No. 2.

Listed on the Luxembourg Stock Exchange

Union Bank of Switzerland London Branch Agent Bank 18th June, 1996

European Investment Bank

FTF 50,000,000,000 Floating Rate Bonds due 1998

For the three months 17th June 1996 to 16th September 1996, the Bonds will carry an interest rate of 7.100% per annum with an interest amount of FTF 1,745 per FTF 100,000 Bond, FTF 17,452 per FTF 1,000,000 Bond, FTF 174,521 per FTF 10,000,000 Bond and FTF 872,603 per FTF 50,000,000 Bond, payable on 16th September, 1996.

Listed on the Luxembourg Stock Exchange

Union Bank of Switzerland London Branch Agent Bank 18th June, 1996

BANK OF GREECE

US\$500,000,000 Floating rate notes 1998

Notice is hereby given that the notes will bear interest at 6.34766% per annum for the period 18 June 1996 to 18 September 1996. Interest payable on 18 September 1996 per US\$100,000 note will amount to US\$16.22.

Agent: Morgan Guaranty Trust Company **JP Morgan**

INTERNATIONAL CAPITAL MARKETS

Worries about US rates flatten bund yield curve

By Antonia Sharpe in London and Lisa Branstetter in New York

Jitters about interest rates kept European government bond markets in a narrow range yesterday. Analysts said heightened expectations of a rise in US rates at the July FOMC meeting were the main source of nerves in Europe.

David Hewitt, bond market strategist at Tokyo Mitsubishi International in London. During the same time, the spread between two-year and five-year paper has come in to 123 basis points from 135 basis points.

On the other hand, the German market has become increasingly negative about a further cut in headline interest rates. Ms Phyllis Reed, European bond strategist at BZW, said euro D-Mark futures were predicting rates of more than 1.5 per cent by December.

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Swift opens up to ETC providers

By George Graham, Banking Correspondent

Swift, the international financial message system, has agreed to open its network to electronic trade confirmation service providers, raising the prospect of closer links between banking and securities settlement systems.

access to its bank customers. They want the ability to send messages to banks which offer custody services through Swift. "They've got all the banks, and we've got all the fund managers and brokers," one ETC provider said.

Bayerische Vereinsbank taps the four-year sterling sector

By Conner Middelmann

The primary eurobond market was slightly subdued yesterday, with a crop of medium-sized transactions aimed largely at retail investors.

In the US dollar sector, Babobank Nederland, the triple A rated Dutch bank, launched \$200m of two-year bonds priced at a spread of only one basis point over Treasury and aimed at European retail investors.

less than the 21 basis point margin on its debut floating-rate note issue last summer, said CS First Boston, joint lead with BNP.

On the other hand, the German market has become increasingly negative about a further cut in headline interest rates. Ms Phyllis Reed, European bond strategist at BZW, said euro D-Mark futures were predicting rates of more than 1.5 per cent by December.

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NEW INTERNATIONAL BOND ISSUES

Table with columns: Issuer, Amount, Coupon, Price, Maturity, Yield, Spread, Book-runner. Includes entries for Bayerische Vereinsbank, Babobank Nederland, and others.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Table with columns: Country, Coupon, Price, Yield, Week, Month. Lists benchmark government bonds for various countries.

INTERNATIONAL BONDS

Table with columns: Issuer, Amount, Coupon, Price, Maturity, Yield, Spread, Book-runner. Lists international bond issues.

BOND FUTURES AND OPTIONS

Table with columns: Instrument, Price, Change, High, Low, Est. vol., Open Int. Lists bond futures and options prices.

FT-ACTUARIES FIXED INTEREST INDICES

Table with columns: Index, Price, Yield, Change. Lists fixed interest indices.

FT FIXED INTEREST INDICES

Table with columns: Index, Price, Yield, Change. Lists fixed interest indices.

GILT EDGED INDICES

Table with columns: Index, Price, Yield, Change. Lists gilt edged indices.

US INTEREST RATES

Table with columns: Instrument, Rate, Change. Lists US interest rates.

UK GILTS PRICES

Table with columns: Instrument, Price, Yield, Change. Lists UK gilt prices.

GERMANY

Table with columns: Instrument, Price, Yield, Change. Lists German bond prices.

FRANCE

Table with columns: Instrument, Price, Yield, Change. Lists French bond prices.

ITALY

Table with columns: Instrument, Price, Yield, Change. Lists Italian bond prices.

SPAIN

Table with columns: Instrument, Price, Yield, Change. Lists Spanish bond prices.

NETIONAL ITALIAN GOVT. BOND FUTURES

Table with columns: Instrument, Price, Yield, Change. Lists Italian government bond futures.

NETIONAL SPANISH BOND FUTURES

Table with columns: Instrument, Price, Yield, Change. Lists Spanish government bond futures.

NETIONAL FRENCH BOND FUTURES

Table with columns: Instrument, Price, Yield, Change. Lists French government bond futures.

NETIONAL GERMAN BOND FUTURES

Table with columns: Instrument, Price, Yield, Change. Lists German government bond futures.

NETIONAL JAPANESE GOVT. BOND FUTURES

Table with columns: Instrument, Price, Yield, Change. Lists Japanese government bond futures.

NETIONAL US TREASURY BOND FUTURES

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LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

Table with 2 columns: Company Name, Price/Value

BANKS, MERCHANT

Table with 2 columns: Company Name, Price/Value

BANKS, RETAIL

Table with 2 columns: Company Name, Price/Value

BREWERIES, PUBS & REST

Table with 2 columns: Company Name, Price/Value

BUILDING & CONSTRUCTION

Table with 2 columns: Company Name, Price/Value

BUILDING MATS. & MERCHANTS

Table with 2 columns: Company Name, Price/Value

CHEMICALS

Table with 2 columns: Company Name, Price/Value

CHEMICALS - Cont.

Table with 2 columns: Company Name, Price/Value

DISTRIBUTORS

Table with 2 columns: Company Name, Price/Value

DIVERSIFIED INDUSTRIALS

Table with 2 columns: Company Name, Price/Value

ELECTRICITY

Table with 2 columns: Company Name, Price/Value

ELECTRONIC & ELECTRICAL EQPT

Table with 2 columns: Company Name, Price/Value

ENGINEERING

Table with 2 columns: Company Name, Price/Value

ENGINEERING, VEHICLES

Table with 2 columns: Company Name, Price/Value

EXTRACTIVE INDUSTRIES

Table with 2 columns: Company Name, Price/Value

ELECTRONIC & ELECTRICAL EQPT - Cont.

Table with 2 columns: Company Name, Price/Value

ENGINEERING

Table with 2 columns: Company Name, Price/Value

EXTRACTIVE INDUSTRIES - Cont.

Table with 2 columns: Company Name, Price/Value

FOOD PRODUCERS

Table with 2 columns: Company Name, Price/Value

ENGINEERING - Cont.

Table with 2 columns: Company Name, Price/Value

FOOD PRODUCERS - Cont.

Table with 2 columns: Company Name, Price/Value

GAS DISTRIBUTION

Table with 2 columns: Company Name, Price/Value

HEALTH CARE

Table with 2 columns: Company Name, Price/Value

HOUSEHOLD GOODS

Table with 2 columns: Company Name, Price/Value

INSURANCE

Table with 2 columns: Company Name, Price/Value

INVESTMENT TRUSTS

Table with 2 columns: Company Name, Price/Value

INVESTMENT TRUSTS - Cont.

Table with 2 columns: Company Name, Price/Value

INVESTMENT TRUSTS

Table with 2 columns: Company Name, Price/Value

INV TRUSTS SPLIT CAPITAL

Table with 2 columns: Company Name, Price/Value

Advertisement for SPECTACLE, featuring an image of glasses and text: 'In a word, SPECTACLE. Our focus on effective company car funding and management makes clear sense for your business. 0800 269895. For contract hire and vehicle management. ACL. HEAD OFFICE: 24-25 Newport Road, Cardiff CF2 1SR Fax: 01222 450729'

HOUSEHOLD GOODS

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INSURANCE

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INVESTMENT TRUSTS

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INVESTMENT TRUSTS - Cont.

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INV TRUSTS SPLIT CAPITAL

BY TRUSTS SPLIT CAPITAL - Cont.

Table listing various investment trusts and their performance metrics, including names like 'Investment Trusts' and 'Split Capital'.

LEISURE & HOTELS - Cont.

Table listing leisure and hotel companies such as 'Hilton Hotels', 'Intercontinental Hotels', and their financial data.

OTHER FINANCIAL - Cont.

Table listing other financial services companies like 'Royal Bank', 'Barclays Bank', and their performance.

PROPERTY - Cont.

Table listing property-related companies and their market performance.

SUPPORT SERVICES - Cont.

Table listing support services companies such as 'IBM', 'Hewlett-Packard', and their financials.

AIM - Cont.

Table listing companies on the Alternative Investment Market (AIM) and their share prices.

LIFE ASSURANCE

Table listing life assurance companies like 'Prudential', 'Axa', and their performance.

MEDIA

Table listing media companies such as 'BBC', 'ITN', and their financial data.

PAPER, PACKAGING & PRINTING

Table listing paper, packaging, and printing companies like 'Wiggins Teape', 'Hollands Doornik'.

RETAILERS, FOOD

Table listing food retailers such as 'Sainsbury's', 'M&S', and their performance.

RETAILERS, GENERAL

Table listing general retailers like 'Debenhams', 'Next', and their financials.

TELECOMMUNICATIONS

Table listing telecommunications companies such as 'British Telecom', 'Nortel'.

TEXTILES & APPAREL

Table listing textiles and apparel companies like 'Next', 'Debenhams'.

PHARMACEUTICALS

Table listing pharmaceutical companies such as 'AstraZeneca', 'GlaxoSmithKline'.

OTHER INVESTMENT TRUSTS

Table listing other investment trusts and their performance metrics.

INVESTMENT COMPANIES

Table listing investment companies and their financial performance.

OIL EXPLORATION & PRODUCTION

Table listing oil exploration and production companies like 'BP', 'Shell', 'Esso'.

PROPERTY

Table listing property companies and their market performance.

RETAILERS, GENERAL - Cont.

Table listing general retailers and their financial data.

TRANSPORT

Table listing transport companies such as 'British Airways', 'Virgin Atlantic'.

WATER

Table listing water utility companies like 'Thames Water', 'Yorkshire Water'.

AIM

Table listing companies on the AIM market.

AMERICANS

Table listing American companies and their share prices.

CANADIANS

Table listing Canadian companies and their share prices.

SOUTH AFRICANS

Table listing South African companies and their share prices.

Rockwell components for heavy and medium duty trucks and trailers keep businesses on the road to exceptional performance. Rockwell logo.

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Bank, a member of the Financial Times Group. Contains information on how to use the service, symbols, and contact details.

FT MANAGED FUNDS SERVICE

FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Main table containing fund names, prices, and performance data. Includes sections for 'OTHER OFFSHORE FUNDS' and 'OFFSHORE INSURANCES'.

MANAGED FUNDS NOTES
Prices are in pence unless otherwise stated.
Prices are for units of £1.00 unless otherwise stated.

LONDON STOCK EXCHANGE

MARKET REPORT

Utilities bid hint helps revive flagging equities

By Steve Thompson, UK Stock Market Editor

It is quiet, it is hot, and most of us would rather be sitting in the garden with a glass of iced tea, or something stronger, than trying to drum up business in the stock market...

Talk suggested that an increased offer for Southern Water from Scottish Power was about to materialise, possibly as early as this morning...

London received no help from a lethargic Wall Street, which opened slightly easier, rallied and then slipped away again just after European markets closed for the day.

The UK retail sales figure for May, expected tomorrow, will be closely watched by the market. Retail sales have performed exceptionally well recently on increasing optimism that cuts in taxes and interest rates over recent months are making themselves felt in high street sales.

emerged from the initial round with a small lead. Bunds gave a ragged performance at the end of last week, when markets showed unease at the possibility of a return of Communist rule in Russia.



Indices and ratios table with columns for FT-SE 100, FT-SE Mid 250, FT-SE-A 350, FT-SE-A All-Share, FT-SE-A All-Share Yield, FT-SE 100 Index, FT-SE 100 Dividend Yield, FT-SE 100 P/E Ratio, FT-SE 100 Dividend Payout Ratio, FT-SE 100 Dividend Cover, FT-SE 100 Dividend Yield, FT-SE 100 Dividend Payout Ratio, FT-SE 100 Dividend Cover.

Double lift for Barclays

Banking group Barclays was the feature in an otherwise dull banking sector, as recommendations from two leading brokers boosted the day's trading. Only after the market close did Barclays confirm the reduction of its holding in 3i Group.

Southern Water up

Bid fever returned to the utilities yesterday as word went round the market that Scottish Power was about to re-enter the contest for Southern Water.

Glaxo firm

A combination of a favourable press report and a number of broker recommendations helped boost pharmaceuticals

James Capel, which moved from "hold" to "buy" on the stock. The broker has a target price of 300p for the shares.

James Capel, which moved from "hold" to "buy" on the stock. The broker has a target price of 300p for the shares. Cable and Wireless eased 4 to 411p in spite of a buy note from Lehman Brothers.

Among media stocks, Carlton Communications jumped 13 to 820p following resurgence of takeover whisper and a positive note from A&N Amro Hoare Govett.

Among media stocks, Carlton Communications jumped 13 to 820p following resurgence of takeover whisper and a positive note from A&N Amro Hoare Govett. The broker has reiterated its buy stance and set target price of between 575p and 600p for the shares.

FUTURES AND OPTIONS

Table with columns for FT-SE 100 INDEX FUTURES (LIPSE) £25 per 100 index point, FT-SE MID 250 INDEX FUTURES (LIPSE) £10 per 100 index point, FT-SE 100 INDEX OPTION (LIPSE) £10 per 100 index point, EURO STYLE FT-SE 100 INDEX OPTION (LIPSE) £10 per 100 index point.

MARKET REPORTERS

John McGovern, Jeffrey Brown, Heather Koller.

LONDON RECENT ISSUES: EQUITIES

Table with columns for Issue, Price, Yield, Dividend, etc.

FT GOLD MINES INDEX

Table with columns for Gold Mines Index, Gold Shares Index, etc.

FT-SE Actuaries Share Indices

Table with columns for FT-SE 100, FT-SE Mid 250, FT-SE-A 350, FT-SE-A All-Share, etc.

Hourly movements

Table with columns for Open, High, Low, Close, etc.

FT-SE Actuaries 350 Industry baskets

Table with columns for Big 4 Grocers, Pharmaceuticals, Water, etc.

TRADING VOLUME

Table with columns for Sector, Volume, etc.

STET

STET - Societa Finanziaria Telefonica p.a. Registered Office in Turin - Corporate Headquarters in Rome. Capital Stock L. 5,281,215,121,000 fully paid up.

STOCKHOLDERS MEETING

The stockholders of STET met in Turin on June 6, 1996 under the chairmanship of Biagio Agnes.

The Ordinary Meeting approved the financial statements of STET S.p.A. at December 31, 1995, which show net income of 1,104 billion lire, up 23.5% over 1994.

The consolidated financial statements of the Group show net income of 2,452 billion lire (+29%). STET's interest in the consolidated net income amounted to 1,459 billion lire (+29%).

DIVIDEND PAYMENT

The dividend for the 1995 fiscal year, which, before tax withholdings, amounts to 150 lire for each savings share and 130 lire for each ordinary share.

The holder of ADRs listed on the New York Stock Exchange representing STET ordinary and savings shares should contact Morgan Guaranty Trust Company of New York, 60 Wall Street, New York, NY 10260, which is the issuer of the aforementioned ADRs.



The Financial Times plans to publish a Survey on Israel on Tuesday, July 9.

For further information, please contact John McGovern on +44 171 873 8836, Fax: +44 171 873 3555 or your usual Financial Times representative.

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WORLD STOCK MARKETS

EUROPE

Table of stock market data for Austria (Jun 17 / Fri), including various stock indices and their values.

GERMANY

Table of stock market data for Germany (Jun 17 / Fri), including various stock indices and their values.

FRANCE

Table of stock market data for France (Jun 17 / Fri), including various stock indices and their values.

NETHERLANDS

Table of stock market data for Netherlands (Jun 17 / Fri), including various stock indices and their values.

ITALY

Table of stock market data for Italy (Jun 17 / Fri), including various stock indices and their values.

SPAIN

Table of stock market data for Spain (Jun 17 / Fri), including various stock indices and their values.

FINLAND

Table of stock market data for Finland (Jun 17 / Fri), including various stock indices and their values.

IRELAND

Table of stock market data for Ireland (Jun 17 / Fri), including various stock indices and their values.

CZECH REP

Table of stock market data for Czech Republic (Jun 17 / Fri), including various stock indices and their values.

HUNGARY

Table of stock market data for Hungary (Jun 17 / Fri), including various stock indices and their values.

POLAND

Table of stock market data for Poland (Jun 17 / Fri), including various stock indices and their values.

SWITZERLAND

Table of stock market data for Switzerland (Jun 17 / Fri), including various stock indices and their values.

GREECE

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TURKEY

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INDONESIA

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PHILIPPINES

Table of stock market data for Philippines (Jun 17 / Fri), including various stock indices and their values.

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Advertisement for Peregrine featuring a bird and the text 'Asia - Buy, Sell or Hold? Speak to Peregrine, the leader in Asian equities, derivatives, country funds, fixed income securities and GDR's.' Includes the Peregrine logo and contact information.

INDICES

Table of various stock indices including Argentina, Australia, Canada, France, Germany, Hong Kong, India, Japan, Korea, Malaysia, Mexico, New Zealand, Norway, Philippines, Singapore, South Africa, South Korea, Taiwan, Thailand, and the UK.

US INDICES

Table of US stock indices including Dow Jones, S & P 500, NASDAQ, and various sector indices like Energy, Chemicals, and Technology.

ASIA

Table of Asian stock indices including Australia, Hong Kong, India, Japan, Korea, Malaysia, Mexico, New Zealand, Norway, Philippines, Singapore, South Africa, South Korea, Taiwan, Thailand, and the UK.

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NEW YORK STOCK EXCHANGE PRICES

Main table of stock prices with columns for stock symbols, prices, and changes. Includes sections for various market indices and individual company shares.

Market Dynamic advertisement for Hewlett-Packard, featuring a computer monitor and the text 'If the business decisions are yours, the computer system should be ours.' Includes the URL http://www.hp.com/go/computing.

Continued on next page

NASDAQ NATIONAL MARKET

NYSE PRICES

Main table containing NYSE and NASDAQ stock prices, organized into columns with stock symbols, prices, and changes. Includes sub-sections for NYSE PRICES, AMEX PRICES, and NASDAQ NATIONAL MARKET.

AMEX PRICES

Table containing AMEX stock prices, organized into columns with stock symbols, prices, and changes.

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Financial Times. World Business Newspaper.

Weak semis extend tech stocks tumble

Wall Street
Technology shares were lower at mid-session, while the rest of the market traded just below Friday's closing levels as activity was muted across US financial markets, writes Lisa Branson in New York.

At 1 p.m., the Dow Jones Industrial Average was at 7,775 at 5,841.70, the Standard & Poor's 500 had dipped 1.42 to 664.48 and the American Stock Exchange composite had lost 3.70 to 690.15. NYSE volume came to 156m shares.

Trading on the bond and currency markets was slow at the beginning of a week where traders expected little in the way of important economic data.

The benchmark 30-year Treasury traded slightly higher than its price late on Friday to yield 7.04 per cent, while the dollar posted a modest loss against the Japanese yen and the DM.

The Nasdaq composite, which is about 40 per cent comprised of technology shares, continued the tumble it took on Friday amid nervousness in the semiconductor sector. In early afternoon trading, the Nasdaq had backed a fall of 4.34 on to the 12.45 it shed on Friday.

Johannesburg was closed for a public holiday.

day, bringing the index to 1,208.84. The Pacific Stock Exchange technology index was 0.5 per cent higher at 1,919.25. The Morgan Stanley high-tech 35 shed a fall of 0.7 per cent.

Weaker semiconductor issues included Intel, which shed 37¢ to \$7.14, Micron Tech-

Bumpy day for airlines, Lufthansa loses height

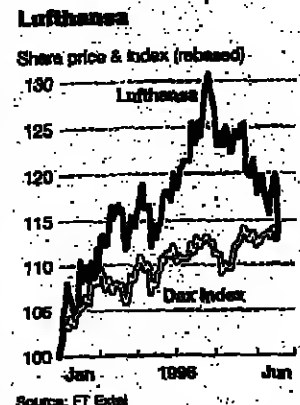
EUROPE
Airline stocks had a bumpy passage. Lufthansa had its worst of it, falling DDM20 to DDM24.50 on a Siddhanta Zeltweg report that the German airline had made an operating loss of DDM200 in the first five months of 1996, because of poor sales and heavy competition.

In the Netherlands, KLM offered a new cut price flight to London's Heathrow, but its Martinair associate talked about pressure on cargo rates and a poor start to the summer tour market. KLM shares fell FL 1.50 to FL 55.20. Swissair lost Sfr15 to Sfr1,350 after news of its plans to boost collaboration in response to the alliance between BA and American Airlines.

FRANKFURT balanced the weaker dollar against the Russian election result and came out with the Dax index 4.51 higher at an Ibis-indicated 2,549.51. Turnover fell again, from DMS8.5bn to DMS7.2bn.

Dollar-associated losses included Continental, the tyre and car parts maker, of 54 pps at DMS4.50, and Mannesmann, Volkswagen, which fell DMS6.50 to DMS55.80, had its own malaise: the carmaker announced a recall of 960,000 cars worldwide, mainly Golf and Jetta models, for the repair of engine cooling systems.

PARIS consolidated. Turn-



over was moderate at FF48bn and the CAC-40 index rose just 1.96 to 2,113.04.

A measure of the day was its star performer, the catering group Sodexo, which is not in the 40-share index. It rose FF1.89, or 9 per cent, to FF2.295 on its forecast of an effective 30 per cent increase in net profits for 1996/97.

SUBSIDIARY cycles attracted more attention than banks and insurers as the SMI index finished 6.2 higher at 3,600.1.

ABB, leading a consortium to build a \$5bn Malaysian dam, rose Sfr13 to Sfr1,532. SMH, the watchmaker, extended recent gains with a rise of Sfr10 to Sfr9,888, and Elektro- watt added Sfr8 to Sfr944 in a continuing rebound after the sharp losses it suffered after its first-half report.

Interdiscount lost 50 centimes at SFr5, on continuing uncertainty about whether it will be forced to seek protection from creditors by the end of this month.

Globus fell SFr22 to SFr750 on the pessimistic outlook given at its annual meeting and on negative sentiment for the retail sector caused by the Interdiscount problem.

BRUSSELS turned its attention to the steel sector. Clabecq leapt BF69, or 21.5 per cent, to BF724, off a high of BF650, on a BEF1.5bn rescue plan that could save it from bankruptcy.

Arbed, the Luxembourg steel maker, which posted a strong rise on Friday before the details of the Clabecq plan were announced, gave up BF710 to BF730.

The broader market was mixed, with the Bel-20 index finishing 0.46 weaker at 1,763.10.

Petrofina, the oil and gas group, and Kredietbank, both the stars of Friday's session, continued to benefit from a reweighting of the Bel-20 index, which takes effect in September. Petrofina was up BF1100 at BF9,900 and KB advanced BF250 to BF9,990.

AMSTERDAM featured a gain of Fr1.80 to Fr188 in DSM on the group's expansion in fine chemicals, regarded as less

volatile than DSM's main business of petrochemicals and plastics.

The AEX index moved ahead 2.77 to 561.07. Ahold, the big retailer currently making an issue of partly convertible preference shares, rose Fr5.50 to Fr194.50 in relatively light volume of 60,000 shares.

HELSINKI saw Nokia A fall FM2.50 to FM181 after Friday's US tech stocks self-off. Forrester's eased ahead of tariff reports today, and Amer, the sporting goods group, dropped FMA.90 to FMA66.30 in a further reaction to its four-monthly results.

The Hlx index fell 18.05 to 2,010.51. However, the pharmaceuticals group Orion climbed further on brisk foreign demand after a good tariff report last Wednesday.

The shares put on FM6 at FM168 after CS First Boston initiated coverage of the stock with a buy recommendation, saying it was trading at a 42 per cent discount to the Euro-

Sumitomo limit-down, Nikkei only marginally lower

ASIA PACIFIC
Tokyo
The Sumitomo debacle had a limited effect on the broad market. The Nikkei 225 index fell sharply but the Nikkei average closed only marginally lower, writes Emilio Terzano in Tokyo.

The 225 index eased by 44.01, closing at the day's low of 22,445.38, as earlier gains were wiped out by profit-taking instigated by domestic institutions. It had seen a day's high of 22,519.39 in the morning on purchases by domestic and foreign investors, but traders said that selling overwhelmed buying in the afternoon session as the index breached its near term target of 22,500.

Volume totalled 41m shares, against Friday's 1bn, which was supported by technical trading linked to futures settlements. The Topix index of all first section stocks slipped 7.89 to 1,692.21 and the Nikkei 300 by 2.10 to 313.61, but rises narrowly led declines by 540 to 507, with 183 issues unchanged.

In London the ISE/Nikkei 50 index gained 3.40 to 1,999.66.

Dealing continued in Sumitomo, which fell by its daily limit of ¥200, or 18.5 per cent, to ¥1,010. The TSE suspended trading on Friday following media reports, and the trading house confessed that it had incurred losses of ¥1.8bn due to illicit copper trading by its head commodity trader.

Other trading houses were also lower with Itochu down ¥12 to ¥762 and Mitsui losing ¥12 to ¥771.

The plunge in copper prices hit mining shares, the sector declining 0.9 per cent. Sumitomo Metal Mining, the mining company in the Sumitomo basket, or corporate grouping, lost ¥14 to ¥777. Dowry Mining fell ¥9 to ¥730.

Government-controlled companies lost ground as West Japan Railway announced that it had started listing preparations. East Japan Railway declined ¥1,000 to ¥689,000, Japan Tobacco ¥20,000 to

¥841,000 and Nippon Telegraph and Telephone by ¥9,000 to ¥866,000.

The Finance Ministry announced that it had set the price for its second offering at ¥315,000 as a result of investor screening. Industry analysts said JT could come under selling since the price was 3 per cent lower than yesterday's close.

In Osaka, the OSE average needed 24.57 to 23,495.14 in volume of 61.1m shares. Nintendo, the video game company, rose ¥260 to ¥8,440.

Roundup
After a 1.5 per cent gain on Saturday, TAIPEI followed with a token improvement of 10.75 to a new 14-month high of 6,423.11. Turnover rose from T\$83.5bn to T\$89.9bn. Share prices were restrained, awaiting the outcome of trade talks between Beijing and Washington - which, eventually, concluded positively with the withdrawal of sanctions threats by both sides.

Meanwhile, the ruling Nationalist party confirmed its plans to set up a fund, jointly with Morgan Stanley, to invest in the Taipei equities. Local newspapers reported that the fund would be capitalised at T\$3bn.

Morgan Stanley's inclusion of Taiwan in its emerging markets index from September suggests the island's share prices may be under pressure.

KARACHI followed its worst drop of the year, 3.1 per cent on Sunday, with short-covering and institutional support which took the KSE 100 index back up by 15.1 to 1,657.01.

Sunday's setback was in reaction to the austerity budget announced last Thursday which involved the largest ever tax imposition in Pakistan's history.

SYDNEY's resource stocks continued to drift following sharp falls in base metal prices, especially copper, after the Sumitomo shock. The sector dropped 1.35 per cent as the

maintain its best levels, the BSE 30-share index finishing 17.90 up at 4,067.29, after touching 4,131.23, on a busy day for corporate news.

ITC, the tobacco group, fell Rs18.75 to Rs309 ahead of results, due after the close.

Speculative demand pushed Colgats Rs4.75 higher to Rs275.25 and Reckitt & Colman up Rs12 to Rs250.50.

Hotel group shares were also sought. Leela kept Rs10.50 to Rs18.75 on results, while East India Hotels climbed Rs2.50 to Rs756.25 on expectations of a bonus issue.

● Hong Kong was closed for a public holiday and Shenzhen B shares did not trade for their

Brazil advances 1.5%

Sao Paulo moved 1.5 per cent higher in mid-session trade, although analysts noted that price rises on options settlements were tempered by concern that the government would slow its drive for constitutional reforms. The Bovespa index rose 828.22 to 57,217.

MEXICO CITY made a spirited attempt to move ahead in early trade, after the steady losses of last week, but by mid-

session the market was again in negative territory with the IPC index down 4.06 at 8,170.22.

Abaco, the broker, argued yesterday that the market correction was due more to nervousness about the peso than to fundamentals. Abaco added that inflation looked fairly well under control, economic growth was picking up and earnings reports were expected to be strong.

Country	% change in local currency		% change in US \$
	1 Week	4 Weeks	
Austria	+1.28	+2.51	+17.58
Belgium	+1.11	+1.37	+21.48
Denmark	+0.26	+0.84	+14.06
Finland	+0.05	+1.21	+1.98
France	+0.23	+0.11	+11.81
Germany	+0.24	+0.34	+17.09
Italy	+1.63	+2.89	+29.17
Netherlands	-0.76	+1.01	+23.81
Norway	+1.42	+1.37	+19.33
Spain	+2.41	+3.49	+30.02
Sweden	-0.90	-0.01	+25.48
Switzerland	+1.06	-0.01	+28.57
UK	+1.18	+1.07	+12.48
EUROPE	+0.51	+0.54	+17.01
Australia	-0.18	-2.02	+12.55
Hong Kong	+0.55	-0.15	+18.17
Japan	+2.40	+1.37	+42.87
Malaysia	-0.93	-2.41	+3.83
New Zealand	+2.15	-0.77	-3.97
Singapore	-1.28	+0.51	+6.10
Canada	-2.31	-3.41	+10.79
USA	-1.03	-0.48	+23.85
Mexico	-2.40	-2.50	+58.16
South Africa	-0.43	+0.80	+25.87
WORLD INDEX	+0.09	-0.10	+26.20

Country	FRIDAY JUNE 14 1996		THURSDAY JUNE 13 1996		DOLLAR INDEX	
	Index	% change	Index	% change	Index	% change
Australia (22)	200.81	0.5	193.69	132.01	158.78	0.7
Austria (7)	182.78	0.1	182.84	132.09	152.61	-0.5
Belgium (27)	212.94	0.1	205.30	149.94	184.53	0.1
Brazil (8)	187.19	1.8	181.27	144.81	132.57	1.9
Canada (6)	158.82	-0.6	159.03	109.01	125.58	157.04
Denmark (20)	287.75	0.5	287.20	204.89	236.74	237.82
Finland (22)	183.42	-0.5	185.57	132.96	153.14	182.18
France (27)	183.42	0.5	183.66	132.96	153.14	182.18
Germany (60)	170.00	0.2	184.08	116.89	134.88	134.88
Hong Kong (59)	424.33	0.3	428.48	291.79	332.11	422.08
India (8)	282.71	0.5	273.48	198.42	227.25	0.0
Ireland (16)	80.51	0.0	77.95	55.54	63.98	53.34
Italy (46)	157.02	1.2	151.48	107.81	124.32	107.81
Japan (107)	351.27	-0.0	351.73	378.97	438.46	289.72
Malaysia (11)	121.15	0.1	117.49	87.19	94.44	101.80
Netherlands (18)	282.71	0.1	285.23	203.23	234.12	232.21
New Zealand (19)	78.21	2.1	75.44	59.73	61.83	61.83
Norway (19)	240.50	0.1	240.50	175.88	222.38	224.44
Spain (27)	116.50	0.1	116.50	70.75	270.44	0.1
Singapore (45)	338.48	-1.3	346.72	247.04	284.80	342.12
South Africa (4)	161.78	0.6	175.32	134.82	143.01	177.29
Sweden (48)	264.48	0.1	264.48	243.63	281.93	281.93
Switzerland (49)	233.69	0.7	227.30	161.85	186.57	182.73
Thailand (45)	188.87	0.5	182.38	116.08	133.70	166.02
United Kingdom (200)	234.82	0.3	225.54	180.70	125.12	225.54
USA (287)	271.49	-0.3	281.94	188.58	214.92	271.49
Americas (772)	267.72	-0.3	258.99	178.25	186.18	203.27
Europe (719)	210.52	0.3	202.58	144.26	168.28	184.48
Asia (208)	303.75	0.1	292.89	203.78	240.49	284.59
Nikkei (231)	182.54	0.1	183.24	116.38	134.07	116.38
Pacific (194)	182.54	0.1	183.24	116.38	134.07	116.38
World Ex. US (1738)	211.77	0.2	203.68	145.19	167.18	178.12
World Ex. Japan (1887)	244.45	-0.1	235.17	187.88	183.52	231.72
The World Index (2382)	213.22	0.2	205.67	145.54	168.82	183.48

EXECUTION

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Trading calmer on LME after Hamanaka effect fades

International efforts cool copper market

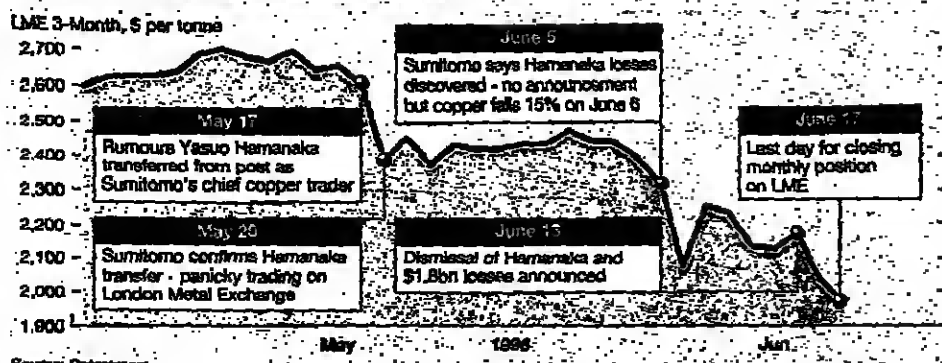
By Kenneth Gooding, Mining Correspondent

The Hamanaka factor has been influencing copper prices for the past month and the market remains very nervous in case there is still bad news to come. But yesterday, compared with the some recent hectic activity, the London Metal Exchange's copper market was relatively calm.

It seemed that the international efforts to ensure the market did not go into meltdown were bearing fruit. These efforts aimed at keeping the copper market stable and involved all key participants - traders, banks, producers and funders - making sure they knew Sumitomo Corporation's positions on the LME and its financial exposure.

Traders suggested that, if the market was to remain stable, three important questions needed to be answered: how big was Sumitomo's remaining

Copper - The Hamanaka Factor



"long" position; were there any "hidden" copper stocks; and how big were the non-Sumitomo "long" positions that might influence the market? Mr Jim Lennon, analyst at Macquarie Equities, part of the Australian banking group, said that two schools of thought were developing. "The first is that Sumitomo and others

have steadily liquidated their long positions ever since Sumitomo discovered Mr Hamanaka's losses on June 6 and that there are now no significant dangers in the market.

"The other view is that there remain significant long positions by Sumitomo and other traders, but, more worryingly, significant hidden physical

stocks, which may come back to the market."

Mr Lennon suggested the resilience of copper prices yesterday supported the view that further big falls were unlikely. Eventually, the market would start to focus on the fact that copper stocks were still very low rather than concentrate on the risk of a financial melt-

down.

Mr Hamanaka has had a tremendous influence on the copper market for at least five years. On many occasions other traders suggested he was keeping prices unnecessarily high by using Sumitomo's financial strength to tie up LME stocks.

So, when rumours spread on May 17 that he was being transferred from his post as head copper trader, the price fell on worries that his successor might not wish to continue the same price support policy.

As is often the case, the market rumours proved correct and on May 20 Sumitomo confirmed that Mr Hamanaka had indeed been given a new role. In fact, it is now known that he was helping the regulatory authorities with their inquiries.

The next big plunge in the copper price did not result from any market rumours but with hindsight we can notice a

remarkable coincidence. On June 6 two US hedge funds - Mr George Soros's Quantum Fund and Mr Julian Robertson's Tiger fund - and Mr Herbie Black, president of American Iron & Metal, a Montreal scrap business, went into the LME's copper market and sold "short".

Their aim, traders suggest, was to drive the copper price down to a level where those investment banks that had granted "put" options (or agreed to take delivery of copper at a future date) would also have to sell to keep their books balanced.

This deluge of selling sent the copper price plummeting by 15 per cent in only two hours.

What makes all this more remarkable is that, when Sumitomo announced on June 13 that Mr Hamanaka had concealed losses of \$1.8bn, it also revealed that he had been dismissed on June 6.

'Wild ride' awaited as turmoil halts share offering

By Laurie Morse in Chicago

The effects of Sumitomo Corporation's \$1.8bn losses yesterday surfaced in the copper industry, when a large US copper producer withdrew a planned share offering, citing the copper market turmoil.

Denver-based Cyprus Amax

Minerals Company, which had expected to raise about \$30m with the sale of 12m shares, has postponed the offering indefinitely.

The copper producer's share price has fallen almost 10 per cent since the issue was announced on May 17, which was also the day when

rumours began circulating about the transfer of Sumitomo's chief trader, Mr Yasuo Hamanaka. Copper company revenues are tied directly to London Metal Exchange prices, and given the current market slide, investors are backing away from investing in some of these companies.

US copper industry executives and market analysts say they are braced for what one termed as "a wild ride" for prices this year.

"The decision to raise on the recent turmoil in the copper markets," said Mr Michael Rounds, Cyprus Amax's director of communications. He said

a reoffering of the shares would depend on market conditions.

Although Cyprus Amax has used warrants to construct a minimum price or "floor" for recent issues of its copper production through 1997, investors are still worried about the firm's revenues from copper sales, which are based on LME prices.

They said volatility in the copper market was likely to continue so long as Sumitomo still has outstanding investments which must be unwound.

There is concern on US markets that Sumitomo's copper losses could rise to as much as \$2.6bn.

Nearly all of the world's biggest copper producers hedge their annual output through the purchase of "puts" that put a floor on the price they will

receive for their metal. This insurance is based on an average of LME copper prices for the year.

Although the price "floor" guaranteed with these contracts varies by company and by period hedged, analysis says a large number are fixed at 95 cents a pound.

In London trading yesterday, copper prices for spot and futures delivery had fallen below this level, putting hundreds of millions of dollars worth of these options "in the money".

If prices remain low, financial institutions, believed to be derivative dealers such as JP Morgan and Banker's Trust, which sold the options to the copper producers will be faced with paying the copper companies the difference between the "insured" price and the market price.

Lack of single watchdog helped conceal losses

Japanese regulators yesterday admitted that one factor in the failure to detect the build-up of Sumitomo Corporation's \$1.8bn loss over the past decade is that no single organisation in Tokyo is responsible for regulating trading companies, William Dawkins writes from Tokyo.

The Japanese government is often criticised for being a patchwork of turf battles. In Sumitomo's case, the battle is not so much for territory, as for avoidance of embarrassment. No one in the various branches of government with an interest in trading companies was yesterday prepared to admit to being in charge.

Technically, Sumitomo

should be governed by the different departments of the ministry of international trade and industry, responsible for international trade, mining and commodities. MITI also supervises Japan's commodity exchanges, from aluminium to gold, an area where its trade interest verges on the financial. But, as Mr Keisuke Sadamori, MITI's deputy director of trade policy administration, pointed out with almost palpable relief, Tokyo has no copper market, despite the fact that Japan has the world's second largest copper smelting industry.

"That was the first question I asked myself," he said. Accordingly, concluded Mr Sadamori, Sumitomo had bro-

ken none of the laws and regulations that came under his ministry's purview. "This has no relevance to MITI regulations," he said. Irrelevant perhaps, but irresponsible certainly not, he added. MITI was in touch with the UK and US investment authorities and would help if needed.

The finance ministry, held by its opponents in other government ministries, to believe that it is in charge of almost everything, politely pointed out that trading companies are not regulated by any single commodity authority. Any illicit commodity dealings should be policed by the UK authorities, since that is where the unauthorised trades occurred,

maintained an official.

The Bank of Japan was equally discreet. Its responsibility was limited to ensuring that any fall-out from the Sumitomo loss did not damage other financial institutions, said an official.

As Sumitomo's case was passed round from ministry to ministry, one government official wondered whether there was a disturbing moral to the regulatory muddle. "There is, I suppose, a chance that when you have a number of inter-related problems such as this, that you could have systematic risk." But sensitive to Tokyo turf battles, he declined to allow his name and ministry to be published.

Netanyahu unveils sweeping reforms to liberalise economy

Hardline stance on peace talks maintained, reports Julian Ozanne

In his first official signal of future government policy, Israel's prime minister-elect Mr Benjamin Netanyahu, has committed his administration to sweeping reforms of the economy but retreated little from his pre-electoral hardline stance towards Middle East peace.

His expected line-up of cabinet ministers has also calmed the fears of foreign and local investors.

The Treasury job will be given to either Mr Dan Meridor, a Likud party moderate, or Mr Jacob Frenkel, central bank governor, rather than Mr Ariel Sharon, the hawkish foreign general who demanded the finance portfolio.

But policy guidelines published yesterday will give Arab states, whose leaders meet in Cairo this weekend, little hope that Mr Netanyahu will be able to sustain efforts to reach a comprehensive peace agreement in the region.

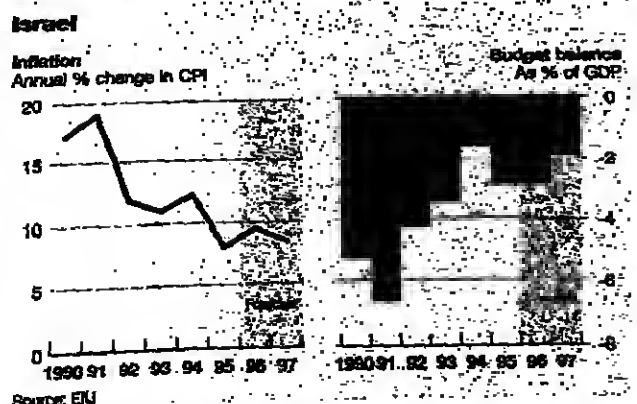
The package reflects Mr Netanyahu's conviction that his government will be marked by a transformation of Israel's domestic agenda rather than any dramatic changes in its external relations.

The real surprise in the guidelines is the extent of economic measures the new government intends to take to push ahead with liberalisation and deregulation of the economy. The government plans to reduce the budget deficit by expenditure cuts rather than increases in taxation. It will move swiftly to privatise the economy and carry out the deregulation and sale of the 52 per cent of land owned by the state.

"The government will stop the continuation of the current policy which created heavy deficits and which threaten the trade balance and the balance of payments and will take all means necessary to reduce them," the guidelines say. Mr Netanyahu also promises to slash bureaucracy, restore public faith in the stock market, increase incentives for the development of small and medium-scale enterprises and intensify Israel's policy of trade liberalisation. Mr Netanyahu's determina-



Israeli premier-elect Benjamin Netanyahu and outgoing premier Shimon Peres during speeches at the last official parliament function yesterday



tion to make an immediate and radical shift in the direction of economic policy was behind his fierce resistance to Mr Sharon's bid for the Treasury. Clearly he wanted Mr Frenkel as finance minister but he may now be forced to accept Mr Meridor or risk a rebellion by the leadership of his own right-wing Likud party.

Israel's stock market yesterday reacted positively to the unfolding of the new government and its economic policy. The Mishkan index of the top 100 companies rose 5.07 points, or 2.8 per cent to close at 205.37.

Senior aides said part of the reason behind Mr Netanyahu's postponement of a visit to

Washington from this month to next month reflected his desire to put some economic measures in place before his departure.

However, at least as important to Israel's business community and foreign investors is the new government's attitude towards Middle East peace and the policy guidelines will not be viewed as encouraging.

On the peace process with Palestinians, the guidelines commit the government to negotiate with the Palestinian Authority "with the intent of reaching a permanent arrangement" but say it will oppose a Palestinian state and will "reinforce the status of Jerusalem as the eternal capital

of the Jewish people".

Palestinians view an independent state with Israeli-occupied Arab east Jerusalem as the only basis for permanent settlement talks.

The new government also pledges to allow Israeli military forces to act "everywhere", implying the possibility of breaching the peace accords by sending soldiers on special missions inside areas of absolute Palestinian sovereignty. It is also committed to maintaining Jewish settlements on occupied Palestinian lands.

Behind these policy guidelines lies Mr Netanyahu's view that he can force Mr Yassir Arafat, president of the Palestinian Authority, to accept limited autonomy in pockets of land of the West Bank and Gaza and meet all of Israel's security demands by threatening him with a continued economic blockade.

On Syria Mr Netanyahu has beaten off rightwing demands for an official freeze on talks on exchange of the Israeli-occupied Golan Heights in return for peace with Damascus sovereignty. It is also committed to the government to negotiate with Syria without pre-conditions. But they also say: "Retaining Israeli sovereignty over the Golan will be the basis for an arrangement with Syria" - a non-starter as far as Damascus is concerned.

The guidelines reveal the continued thinking by Mr Netanyahu that somehow Syria can be induced to the negotiating table with anything less than the prospect of a full recovery of the Golan Heights - a strategy viewed as preposterous and potentially explosive by Syria.

The form of the new Israeli government goes "to show... that the region is approaching anything but peace," said yesterday's al-Basth, the newspaper of Syria's ruling party.

It adds: "Netanyahu's programme, which is full of hate to Arabs, and his insistence on keeping Arab lands is enough proof to convince everybody that the Israeli expansionist and aggressive policy is escalating."

INTERNATIONAL NEWS DIGEST

US falls behind as aid donor

The US slipped last year into fourth place behind Japan, France and Germany as a provider of government development aid, and the total declined to \$56bn, the Organisation for Economic Co-operation and Development (OECD) reported yesterday.

Japan remained by far the largest official aid donor last year with \$14.5bn, according to the OECD's development assistance committee. Helped partly by the strength of their currencies in relation to the dollar, France and Germany overtook the US to arrive in second and third place with \$8.4bn and \$7.5bn respectively.

US official aid fell by \$2.6bn - 28 per cent in real terms - to \$7.3bn, partly because of delays in approving its 1995-96 budget but also because of cuts in food assistance and in those peacekeeping expenditures which qualify as aid. Last year the US devoted 0.1 per cent of gross national product to government aid programmes, its lowest level since the second world war.

David Buchan, Paris

Disarmament group expands

The Geneva-based United Nations Disarmament Conference, currently negotiating a comprehensive test ban treaty, was yesterday joined by 23 new members, including Israel, Iraq, North Korea and Syria. The move brings the total membership to 61.

Under the terms of entry, brokered by South Africa, the 23 new members will renounce an individual right of veto on conference decisions for the next two years. This condition will continue to apply beyond that time to countries under UN sanctions, a move aimed at Iraq.

Yesterday's decision puts an end to three years of wrangling over Iraq membership, and earlier rows over the entry of Israel and others, which has prevented admission even of neutral nations such as Switzerland, Austria and Finland.

The admission of new members does not directly affect the test ban treaty talks, due to end by June 28, in which the 23 are observers.

Francis Williams, Geneva

Lebanon wins Y13bn loan

The Japanese government yesterday announced its first official loan to Lebanon in 23 years. The Y13bn (\$119m) credit, for drinking water supply and sewage disposal systems, was announced by Mr Ryuzihiro Hashimoto, the prime minister, to Mr Rafiq Hariri, his Lebanese counterpart, on the second day of a three-day visit to meet Japanese government officials and businessmen. The projects, in four coastal cities, will be co-financed with the World Bank.

The soft loan comes two months after Mr Hariri appealed to Asian governments, including Malaysia and South Korea, to help finance Lebanon's reconstruction after 17 years of civil war. Mr Hashimoto asked his visitor to tone down hostilities with Israel at a summit of Arab leaders, due to open in Cairo on Friday. In response, Mr Hariri called on Japan to join a proposed international council to co-ordinate assistance for Lebanon.

This is the first Japanese assistance for the country since an export credit granted by the Export-Import Bank of Japan in 1974.

William Dawkins, Tokyo

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ARAB REPUBLIC OF EGYPT Egyptian Electricity Authority (EEA) IFPQ 61/96

EEA is planning shortly to invite experienced Independent Power Producers/Developers to submit their pre-qualifications to implement a Build, Own, Operate, and Transfer (BOOT) power plant project. The BOOT project will be two 325MW steam units capable of firing both natural gas and oil. The BOOT Project Developer will be required to design, finance, construct, own and operate the BOOT plant for an extended number of years. The Developer will sell the electric power to the EEA in accordance with a Power Purchase Agreement and eventually transfer ownership of the plant to EEA at the end of the specified period.

Interested Developers are requested to respond to the following questionnaire:

1. What is the legal name, address of the responding organisation (Developer)? Include the phone and fax numbers.
2. What are the types of other organisations the developer may include to form a consortium capable of completing effectively all the required activities for the BOOT plant, eg financial, technical (design and O&M), commercial, etc?
3. What is the nature of this consortium to be developed to undertake this project: joint venture, subcontracting, etc?
4. What are the related tasks and activities performed by the Developer's organisation on other BOOT projects? Other tasks related to different type projects such as BOO, BOT, ROO (Rehab, Own, Operate), RLO (Rehab, Lease, Operate) which are applicable to this BOOT Project may be also included. Provide a list of all these projects.
5. What was the level and nature of the responding organisation's involvement in each of the tasks and activities listed in question 4 above?
6. What are the names, description, and the current status for each project listed in question 4 above?
7. What were the other parties the responding organisation teamed with to work on the projects listed in question 4 above?

The answers to these questions will be used by EEA as a basis for selecting the developers who will receive the Request for Pre-Qualifications (RFPQ). The qualifications of the organisations responding to the (RFPQ) will then be evaluated by EEA to establish a short list of qualified Developers. EEA will send the Request For Proposal (RFP) to the short listed Developers inviting them to submit their proposals for the intended BOOT project. The responses of the interested Developers to the above seven questions (not to exceed six pages) must be submitted to the following address before 12.00 noon, Thursday, July 4, 1996.

General Director of Central Purchases, Egyptian Electricity Authority, Abassia, Cairo, Egypt
Tel: 261 6537 Fax: 261 6512/401 1630

Quitting EU 'would weaken London's role'

By Andrew Adams
Public Policy Editor

Mr John Gummer, the environment secretary, yesterday condemned moves to weaken Britain's ties with the European Union as "a betrayal of London which would do fundamental damage to our national prosperity".

In an interview with the Financial Times before the publication today of a government-sponsored report on the capital's economic prospects, Mr Gummer warned of the damage which isolation from the "heart of Europe" would inflict on the UK.

His outspoken remarks will fuel divisions in the governing Conservative party over Europe only a week after the largest House of Commons rebellion yet by Tory Euro-sceptics and the well-publicised donation to a Eurosceptic campaigning group from Baroness Thatcher, the former prime minister.

Mr Gummer's pro-European credentials are second in the cabinet only to those of Mr Kenneth Clarke, the chancellor of the exchequer. The report he is launching, by a team of independent planning consultants and academics, claims London remains highly competitive with New York, Paris and Tokyo as a "world city" in terms of finance and business services, international institutions, tourism and culture.

The report says Tokyo, by contrast, has a far weaker international position, which might be expected to be eroded further as Hong Kong, Singapore and Shanghai increase their regional importance.

It says the UK capital faces "more direct competition than ever before" against other leading cities worldwide, particularly for its European pre-eminence as a business and cultural centre.

Mr Gummer said yesterday: "We have got to be very strong in our membership of the EU so that London is central to its operations. At this moment there are only two truly world

cities - London and New York, and we have to do all we can to stay ahead."

The report, by a team including consultants from Llewellyn-Davies and Comedia and academics from University College London, says London is "perhaps the most international of all the world cities". It scores particularly highly in finance and business services.

However, the report warns "there is no natural reason why London or New York should always be the world's premier financial centres". Many "headquarters" functions could disperse "either to cheaper locations or to strengthening political centres such as Brussels".

The need for extra infrastructure investment is also raised starkly by the researchers, particularly in the field of tourism. They call for a "concerted plan" to increase capacity and improve visitor attractions, and "substantial improvements in quality and quantity" of hotel rooms.

The report said London had the capacity to double visitor numbers over the next 20 years, adding between £5bn (£7.65bn) and £10bn a year in foreign earnings. But that would happen only "if there is a concerted effort to plan and increase capacity - street life, attractions, entertainments, hotels, transport".

It also stressed the need for improvements in transport, environment and buildings contrasting government policy starkly with that in Paris, "whose transport and grand projects investments have been extremely successful in rejuvenating its image and economy".

The report does not comment directly on the case for an elected strategic authority for London, as proposed by the opposition Labour party. But it stresses that London is "by no means unusual" in not possessing an elected body covering the whole metropolitan conurbation.

Martin Wolf, Page 13

Ireland's elusive peace Fears grow of backlash by pro-British 'loyalist' paramilitary organisations Dublin cabinet to meet today about IRA attack

By John Murray Brown in Dublin and John Kemptner at Westminster

The Irish cabinet will meet today in the wake of the Irish Republican Army's bomb attack in the English city of Manchester, with Mr John Bruton, the prime minister, under growing public pressure to offer more than another verbal rebuke to Sinn Féin.

The pan-nationalist approach has been shattered by the latest outrage and by the killing of a policeman in the republic by IRA members 10 days ago. The approach is centred on securing Sinn Féin's acquiescence to a settlement in Northern Ireland, with the backing of the moderate nationalist Social Democratic and Labour party and of opinion among Irish Americans.

There was a feeling yesterday in the Dail, the lower House of the republic's Parliament, that the policy of accommodating hardline republican organisations had run its course.

Unlike at Westminster, no mainstream Irish politician is talking about interment - detention without trial. However, there appears to be a general acceptance that if the atrocities continue, a security clampdown may be necessary.

Mr Des O'Malley, the deputy

After the IRA ceasefire

Feb 8: Blast at Canary Wharf in east London; two die and more than 100 injured. Bomb explodes an hour after statement issued in Dublin says that "with great reluctance... the complete cessation of military operations will end at 18:00".

Feb 10: Pro-British paramilitary groups in Northern Ireland do not order immediate retaliation and say they will "consider their position in a calm and orderly way".

Feb 13: Three main parties in Republic of Ireland condemn IRA for ending ceasefire.

Feb 15: "Device" left in London phone box is made safe by Scotland Yard.

Feb 18: Serenx bomb being carried on bus in central London by IRA volunteer Edward O'Brien, explodes, killing O'Brien and injuring four other people.

Mar 8: Bomb explodes in litter bin in west London; no casualties.

Apr 17: Another bomb explodes in west London; no casualties.

Apr 24: Large bomb planted near Hammersmith Bridge over Thames in west London fails to explode.

Jun 7: Two police officers in car escorting Post Office van in Adara in the Republic of Ireland are shot after car is rammed. One of the two, Detective Gerry McCabe (52) dies soon afterwards. IRA denies involvement.

Jun 13: Sinn Féin president Gerry Adams condemns killing of McCabe and says he accepts IRA denial. Commissioner Patrick Culligan, head of the police in the Irish Republic, says he is certain IRA killed McCabe.

Jun 15: IRA says some of its members were involved in Adara shooting in contravention of orders against attacking enforcement authorities in republic; bomb explodes in Manchester shopping district - hundreds injured by flying glass.

Jun 18: "Punishment beating" in Belfast; youth aged 16 has arm and leg broken by masked men using iron bars. Youth says men said they were from IRA.

leader of the opposition Progressive Democrats in the republic, said: "The ceasefire has been comprehensively broken. The question now is whether the government should re-arrest those IRA men who were released from prison during the ceasefire. Under the legislation they would have the power to do so."

The immediate response of the coalition government in the Republic of Ireland is likely to be less emotional than the weekend television performance of Mr John Bruton, the prime minister. Mr Bruton feels personally let down by Sinn Féin, having pursued a policy of accommodating the republicans which

many observers believe was against his better instincts. British ministers, while appreciative of Mr Bruton's consistently harder line, fear that once the immediate outrage has passed, the Irish cabinet will be unable to agree on any fundamental reappraisal of policy. Senior MPA in London

believe that the spotlight will now be trained on Dublin. "All we can do is press ahead with sensible security measures while making clear to Sinn Féin that we will no longer be so amenable. Beyond that, it's up to the Irish," said a leading Conservative member of the House of Commons.

Mr Seamus Mallon, the SDLP deputy leader, told Irish radio that the republican movement faced "a moment of truth". Quoting a Chinese proverb, he said it was one thing to be fooled a first time, but something quite different to be fooled twice.

The events of the past 10 days have had a cathartic effect on attitudes towards Sinn Féin and the republican movement south of the border. The Irish police report a record level of response to their request for information on the IRA gang suspected of involvement in the killing Detective Gerry McCabe. Such a response would have been anathema to many Irish people before the latest outrages.

Many Irish people blame their government for being too lax in its programme of prisoner releases and in not maintaining its surveillance of republican suspects during the ceasefires.

Worries about the IRA's paramilitary activities have

been exacerbated by reports of vigilante murders of drug dealers and small-time criminals in Dublin and elsewhere.

Fianna Fail, the main opposition party, and traditionally the party with the closest links with Sinn Féin, cautioned against breaking off ties. "If you break the link, you have no influence. Then we're back to the 35 years of violence," said Mr Dermot Aherne, a Fianna Fail deputy for the border region.

Mr Dick Spring, the Irish deputy prime minister and foreign minister, conceded that there were confusing signals from the republican movement. Hitherto the government's line had been that the republican movement was engaged in a fierce internal debate over which Mr Adams had little or no control. In government circles there was a growing incredulity at Mr Adams's profession of ignorance of the actions of the IRA.

However, in an implicit criticism of Mr Adams, Mr Spring remarked curtly that the cabinet meeting would seek to make an assessment "whether or not the leadership is serious about bringing an end to the violence." Mr Bertie Ahern, the Fianna Fail leader, conceded that the government could not continue "indefinitely" to accept Sinn Féin's bona fides.

US may adopt harder line on visas for Sinn Féin

By Jimmy Burns in London

The US administration is thought to be prepared to harden its policy on visa applications for known republicans including Sinn Féin president Mr Gerry Adams if they do not disassociate themselves fully from the resumption of terrorist violence.

But the administration appeared to be holding back yesterday from taking the political initiative on Northern Ireland, adopting a wait-and-see attitude while the governments of Britain and the Republic of Ireland assessed the implications of the Manchester bomb.

With both UK and Irish intelligence providing few clear clues about the position of the

governments of Britain and the Republic of Ireland are expected to continue to resist calls for the reintroduction of interment, Jimmy Burns writes in London. Both governments have the legal powers needed to introduce detention of terrorists without trial at short notice. They have identified people whom they believe are leaders of the Irish Republican Army as well as many members and sympathisers who could be arrested in a big crackdown.

But enforcement authorities and government officials believe that any security advantage that might be gained by carrying out widespread arrests would prove short-term and would produce negative political fall-out.

Interment was last used from 1971 to 1975 when the level of violence in Northern Ireland was much greater than now.

Interment temporarily disrupted IRA operations and provided some intelligence about the organisation. But it led to an upsurge in violence and in recruitment for the IRA, and alienated the nationalist community from the political process.

A senior Sinn Féin official, Mr Mitchel McLaughlin was allowed into the US last week as part of the Clinton administration's policy of trying to encourage dialogue on the Northern Ireland question.

But US officials were shocked by the weekend bomb which shattered their belief

that a ceasefire was close to being declared by the IRA. The administration was hoping that this would in turn pave the way for Sinn Féin's inclusion in political talks.

Fears increased yesterday of a backlash by pro-British paramilitary groups in response to the IRA's bomb in Manchester, John Murray Brown writes in Dublin. The largest of the Northern Ireland Protestant terror groups said it had placed its personnel on alert in response to what it claimed were IRA plans to resume violence in the region.

The statement from the Ulster Freedom Fighters, which is linked to the Ulster Democratic party, called on the IRA to reinstate its ceasefire. On Sunday, before the state-

ment was issued, Mr Dick Spring, the Irish deputy prime minister and foreign minister, said the pro-British paramilitaries had responded with great restraint to IRA provocation.

Mr Billy Hutchinson of the Progressive Unionist Party, which is aligned with the thinking of the Ulster Volunteer Force, said: "Every time an IRA bomb goes off it puts pressure on the loyalist ceasefire. Every time it goes off means we are a step closer to a resumption of loyalist violence, unfortunately." Security sources believe loyalist paramilitaries were involved in a reconnaissance dummy run when a hoax car bomb was discovered at Dublin airport last month.

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Labour party hints at shift in beef policy

By Robert Peston in Bonn

Mr Tony Blair, the leader of the opposition Labour party, was positioning himself yesterday to end his party's qualified support for the Conservative government's non-cooperation policy in the European Union. He signalled that Labour's patience was wearing thin on a short tour of Germany, where he met the Chancellor, Mr Helmut Kohl, and the German president Mr Roman Herzog. He insisted to the German leaders that the scientific case for removing the ban on British beef exports was strong, while recognising that the European public remains to be convinced. However, he indicated that this week's summit of EU government heads in Florence would be a turning point in Labour policy. One of his close aides said that, given the scale of the government's anti-EU offensive, Labour would judge as a success anything short of a firm timetable for lifting the ban and a package of financial aid to British farmers additional to EU budget rebates. Since British ministers have been playing down expectations of agreement on this scale, Labour has given itself room to attack the government's tactics after Florence. "A lot depends on what happens in Florence," said an aide. "The government should conduct a massive exercise in

Labour is considering plans for a significant strengthening of the powers of the UK's utility regulators, James Blitz writes at Westminster. They would be given the right to identify and punish anti-competitive practices. In a new indication that the party is determined to attack restrictive practices, Labour's trade and industry team has been examining plans to allow utility regulators to act as "market policemen". Regulators already have considerable powers to draw up rules, mainly affecting consumer services and prices. But Labour believes that the regulators would also be far better placed than the Office of Fair Trading to make swift decisions on anti-competitive practices. It is believed Labour's desire for faster decision-making reflects the delays in resolving competition issues in the telecommunications industry. negotiation, diplomacy and communicating why British beef is safe" to secure EU agreement at Florence, Mr Blair said after his meeting with Mr Kohl. The Labour leader defended his current united front with the government. He told Mr Kohl that it would have been against "the national interest" for Labour to attack the prime minister's efforts to have the

ban on British beef exports lifted. It was "essential we do nothing to undermine" that, he said. In all his meetings, Mr Blair is stressing that a Labour government would want a "fresh start" in British relations with the EU, based on a more "positive approach". "Our best interest is served by being strong in Europe," he will tell the biennial conference of the German employers' organisation, the BDI, today, while attacking the veiled calls of some in the governing Conservative party for the UK to withdraw from the EU. He will make it clear that Labour is far more sympathetic to European monetary union than the government, saying that the primary obstacle to a Labour government signing up for a single currency is the need for the UK economy to become more robust. A Labour official said Mr Blair would tell the BDI that Labour had "no overriding objection to a single currency". But the official said that Mr Herzog and Mr Kohl both made it clear that Germany was intent on participating in monetary union at the earliest possible date of 1999. Mr Blair's trip to Germany has attracted considerable local media interest. His meeting with Mr Kohl lasted 90 minutes, double the time scheduled.



The subject of this portrait was long believed by eminent authorities to be Lady Jane Grey, who survived as queen of England for only nine days in 1553. Now a Canadian scholar, Susan James, has demonstrated that the lady is Catherine Parr, the sixth and last wife of the flamboyant Tudor king Henry VIII.

Buses turn to gas fuel to beat pollution

By Charles Batchelor, Transport Correspondent

The National Express coach group is to start running a fleet of 14 gas-powered buses on a busy route in the west Midlands in an attempt to reduce exhaust emissions, it announced yesterday. The company joins a growing number of bus operators and local authorities to introduce gas or electric-powered vehicles to reduce pollution in city centres. While the cost of vehicles is high, operators feel it is important to keep ahead of legislation. The west Midlands suffered particularly badly from pollution last summer and diesel vehicles are believed to be one of the biggest causes. Operators are worried they will be banned from city centres if the problem persists. A total of 150 buses similar to those ordered by National Express are already in use in Gothenburg and Malmo in Sweden. About 800 gas-powered buses are in use worldwide while a further 500 are on order, according to a recent report by the UK National Federation of Bus Users. West Midlands Travel, a National Express subsidiary, will spend £2m (\$3.06m) on Volvo buses powered by compressed natural gas (CNG). The advantages of CNG include low emission levels and the almost complete absence of sooty particles, the company said. Unlike liquefied petroleum gas (LPG), which has to be delivered by tanker, CNG can be supplied from the national gas grid. However there are disadvantages to using CNG. By comparison with the rest of the European Union, Britain imposes a high level of fuel duty on natural gas. CNG is stored under pressure but requires more space than LPG and diesel. A bus with a 250litre diesel tank would require a 1,200 litre gas tank - often on the roof - for an equivalent mileage. A gas engine is also 10 per cent less fuel efficient than a diesel engine.

US bank to open London office

Some of the US's top high technology investment bankers are expanding their London operations in anticipation of a boom in flotations for European growth companies. Hambrecht & Quist, the San Francisco-based investment bank which is one of the US's leading specialists in the electronics, healthcare and consumer goods sectors, announced yesterday that it is to open a London office to provide corporate finance and brokerage services to emerging companies in Europe. It follows hot on the heels of Robertson Stephens, another San Francisco-based investment bank which was one of the leading sponsors of stock market flotations last year in the same high technology and healthcare sectors. The US arrivals come as European stock exchanges expand their efforts to attract smaller companies to the market and just a few months before the scheduled opening of Easdaq, a Europe-wide exchange for smaller companies modelled on the US Nasdaq. Mr Joshua Ratner, head of investment banking at Hambrecht & Quist, said his firm saw Europe as "the prime growth area for technology and life science stocks in the next 20 years". The US investment banks have already begun to introduce European companies to the Nasdaq market in New York, and want to attract European investors to the high-growth sectors in which they specialise. Hambrecht & Quist already has joint ventures with Beeson Gregory in London and with Credit National in Paris, and is looking for partners in other European countries.

George Graham, Banking Correspondent

Outhwaite Names in court

The Outhwaite 84 Names Association has issued writs in the High Court on behalf of 900 Lloyd's Names, who are investors whose personal wealth has traditionally supported the Lloyd's insurance market. They claim their syndicate faces losses of up to £300m (\$460m) in respect of the 1995 year of account. The defendants include the underwriting agency RHM Outhwaite, Mr Richard Outhwaite and auditors Ernst & Young. The issuing of writs, which was expected, comes when Lloyd's is seeking agreement to its plan for reconstruction and renewal. The association said there was still "room for improvement" in the terms of the offer. If Names in general agree to a settlement, the suit will become superfluous for most of those involved.

Jim Kelly, Financial Services Staff

Biggest trade union issues tough warning on pay

By Andrew Bolger, Employment Correspondent

Union, Britain's largest trade union, yesterday sent a strong signal that an incoming Labour government would face strong pressures over pay in the public sector and over a national minimum wage. At the moment Britain has no statutory minimum wage level. The annual conference of the union, which has 1.3m members, voted to "redress the balance caused by the freeze imposed on the public sector pay bill over the last few years which has seen pay levels lag behind the average increases in the economy". The delegates in the southern

England town of Bournemouth also promised to resist any moves towards continuing government-imposed incomes policies. Mr Rodney Bickerstaffe, Unison's general secretary, said it would be hypocritical for MPs to vote themselves a 30 per cent pay rise and then insist that any other public sector pay increases be funded by redundancies or improved productivity. On a minimum pay, Unison reaffirmed its target of half male median earnings - currently £4.26 (\$6.50) an hour - in spite of the Labour party's refusal to set a figure before the next general election. Mr Bickerstaffe said: "We don't want a rate so low that everyone is exploited." The conference

defied its executive and supported an amendment which instructed the union to put its £4.26 figure in a motion to the Trades Union Congress in September. Last year, the TUC voted in principle for a minimum wage, but succumbed to pressure from the Labour party's leadership not to specify a figure. The union conference also expressed opposition to the economic convergence criteria within the European Union's Maastricht Treaty. If a British government called a referendum, Unison said it would campaign against joining the single currency "unless these criteria are substantially changed in favour of economic growth and full employment". Mr Bickerstaffe said: "The way forward

for Britain, for Europe, for the world economy, cannot be on the basis of simply cutting back welfare services." Union conference delegates said the Maastricht Treaty enforced a deflationary monetarist regime throughout Europe. "There is a clear division of views between deflation and monetarism on one hand and a reductionist growth strategy, with government intervention to ensure its success, on the other. It is not possible to ride both these horses at the same time."

Friday's one-day strike by mail workers will go ahead in spite of talks yesterday between the Royal Mail division of the Post Office and the CWU trade union.

Radio fees may rise 300%

Mobile phone companies and other groups offering radio-based services could find their radio spectrum licence fees increased by more than 300 per cent under government proposals set out yesterday. Cellular operators such as Vodafone or Cellnet which currently pay £28,800 (\$44,100) for a national radio channel could be paying £177,000 under the proposals, published in the consultation paper. Mr Ian Lang, trade and industry secretary, said the aim was to encourage better management of scarce spectrum. Radio spectrum is managed in the UK by the Radiocommunications Agency which currently sets licence fees to recover the costs of managing the spectrum - about £30m a year - rather than the value of the spectrum to an operator. There is, therefore, little incentive to use spectrum efficiently or to return to the Agency unused spectrum. As a consequence there is a scarcity of spectrum and congestion of the airwaves, especially in city areas. Orange, the mobile phone operator which would see its fees rise from £28,800 to £96,000, said it welcomed the proposals if they encouraged better use of the available spectrum.

Alan Carne

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TECHNOLOGY

The revelation that plastic can conduct is no longer the answer to an unasked question, says Vanessa Houlder

Electrifying effects

For years, nobody doubted that plastic was an insulator. The rationale was simple: plastic could not conduct electricity because its atoms were bound in such a way that the electrons had no freedom of movement.

This idea was so deeply entrenched that the discovery in 1977 of a plastic that could transmit electricity was met with incredulity. "A lot of people did not believe it," recalls Alan MacDiarmid, one of the chemists at the University of Pennsylvania who synthesised the compound.

But the sceptics found that the results could be replicated. When a pinch of iodine was added to a particular form of polyacetylene, its conductivity increased by more than a million times.

By "doping" the plastic with atoms that were able to give up spare electrons to the polymer bonds - or grab extra electrons back - the chain of organic molecules in the plastic became electrically unstable. As a result, the electrons could flow across the length of the polymer when a voltage was applied.

The discovery was a breakthrough in materials science. The polymer had the flexibility and ease of processing of conventional plastic but the electromagnetic, electronic and optical qualities of metal.

Yet the applications of the newly discovered substance were not immediately apparent. "When we first put conducting polymers on the scene, people said that they had the ideal answer for the question that had not yet been asked," says MacDiarmid.

On the face of it, that comment still holds true. Conductive plastics have few mainstream applications. For most roles, these "synthetic metals" are more expensive and poorer conductors of electricity than ordinary metals.

But champions of conductive polymers argue that their benefits do not depend on cost advantages but on the unique properties of the polymer itself.

There has been no shortage of interest in exploring these proper-

ties. Companies such as AlliedSignal, BASF, IBM, and Neste of Finland have invested in the field. The number of academic researchers has expanded: the last conference on synthetic metals produced nearly 1,500 abstracts.

Examples of applications that have already materialised include anti-static flooring, electromagnetic shielding for equipment in aircraft, batteries with very slow discharge

One goal is to make a lightweight, flexible display, such as a flat TV screen or a roll-up electronic newspaper

rates, electrochromic displays for car sun-roofs that change colour on the application of a voltage, and "electronic noses" that detect gases because the chemicals change the conductivity of a thin film of conductive polymer.

Other applications still in development include a replacement for lead solder in joints in electronic equipment, which IBM is working on in conjunction with the Univer-

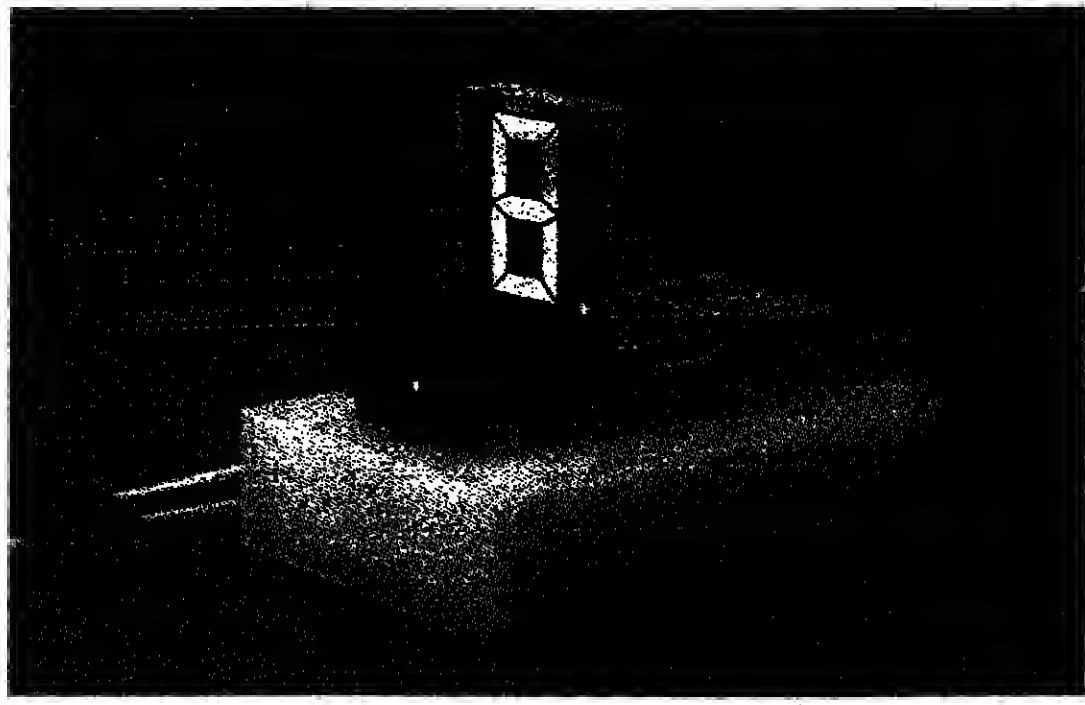
sity of Pennsylvania.

Many of the most intriguing applications have resulted from developments in the fundamental understanding of conductive polymers. Although researchers do not fully understand these materials, the arrangement of the polymer chains and their purity have been shown to have a crucial influence on their properties.

These insights have helped researchers to increase the conductivity of doped polyacetylene from its 1977 levels of 38 siemens per centimetre to at least 80,000 siemens per centimetre. Weight for weight, that is comparable to the conductivity of metal, although it is about 100 times less than metal in volume terms.

Some scientists are working on methods that could improve plastics' conductivity still further. In the UK, for example, at the University of Durham, researchers are trying to improve the properties of polyaniline to the point where it could replace copper braids in coaxial cables.

There is still no agreement among scientists in the field as to what the maximum conductivity of conducting polymers might be. "As far as



Plastic electronics on display: Cambridge Display Technology is aiming to make marketable devices, such as for mobile phones

science is concerned, the sky is the limit," says MacDiarmid. "There is a huge amount to be discovered."

Increasingly, researchers have turned their attention to investigating polymers that are semiconductors. In particular, scientists have focused on the consequences of two scientific breakthroughs in 1990.

One was the development of a polymer transistor by Francis Garnier at the Laboratory of Molecular Materials in Thiais, France. Its advantage was that it was entirely flexible; the disadvantage was that it was slow - the mobility of the electrons was 100,000 times less than in amorphous silicon.

By improving the molecular

organisation of the conductive polymer, Garnier has substantially speeded up the electrons' mobility to the point where it could be used in a basic display, such as that for a microwave oven, which does not need fast electronics. He anticipates further improvements. "By the end of this year, we will have mobility equivalent to amorphous silicon," he says.

Philips, which has collaborated with Garnier's team in the past, also reports "outstanding research results" in the field of plastic electronics. It believes that their possible applications are liquid crystal displays, radio frequency identification tags and simple chip card appli-

cations - although these are still far off.

The other important development of 1990 was the work of Richard Friend and colleagues at the University of Cambridge.

They sandwiched a conducting polymer - poly-p-phenylenevinylene or PPV for short - between two electrodes. The positive terminal removed electrons from the plastic - the equivalent to introducing positively charged "holes". When electrons from the negative electrode fell into these holes, they gave off energy in the form of photons.

Cambridge Display Technology, the company set up to exploit Friend's advance, believes it can turn the concept into a marketable device, such as a display for a mobile telephone, by the end of 1997. Uniax, a company based in Santa Barbara which is working on rival technology, has similar goals: a prototype early next year and a commercial product in the next 18 months to two years.

One of the ultimate goals for researchers is to make a lightweight, flexible display, such as a flat television screen or a roll-up electronic newspaper. Such a development is not yet on the horizon. In any case, light-emitting polymers would be up against stiff competition from alternative technologies.

But Friend is optimistic about their potential. "The intrinsic stability of polymers as semiconductors is looking very good and the ability to generate light is better than I ever thought it could be," he says. "The more we learn about the materials, the more promising they look."

Laura Tyson

Versatile material for better batteries

While many of the companies that have been exploring conductive plastics are household names, smaller players, such as Taiwan-based KI Co, have also been active in the field.

In April this year, KI, a high-tech consultancy, said it had developed a plastic material which is both conductive of electricity and readily processible and is moving to commercialise its prototype products. Its findings were presented at a conference in the US last month.

Although the material is nowhere near as conductive as copper, KI believes it has the potential to transform the manufacture of rechargeable batteries and coaxial cables used in telecommunications.

It also has certain defence-related applications. KI has applied for patents.

Laboratories around the world have been struggling to solve the puzzle of how to make ordinary plastic conductive without using any metal. But although the research groundwork had already been done, the goal of physically producing a material that could be commercialised had proven elusive.

KI says its material can be processed much like ordinary plastic - melted, moulded, extruded or powdered - or made into paint or adhesive.

To produce it, the basic plastic material is processed before undergoing "doping" to make it conductive.

KI has been discussing possible

co-operation with Microelectronics Technology, another Taiwanese company which has developed technology used for transportable and maritime satellite communications equipment.

The battery used in such equipment is heavy and lasts for about an hour, but Chen Chien-yi, KI's chairman, says the aluminium alloy in the battery could be replaced with the conductive plastic, reducing its size and weight and increasing battery life.

Recently, Chen demonstrated a prototype one-volt rechargeable battery made using the plastic. Based on this simple model, a one-volt battery could be produced which is the size of a credit card or even thinner, he says. Such a battery could eventually replace the

normal nickel metal hydride - rechargeable battery. It would be more powerful, recharge faster and produce no heat as well as being lighter, says Chen.

He also demonstrated how an ordinary piece of transparent plastic sheet, such as that used for an overhead projector, could be made conductive by thinly coating one side with conductive plastic "paint".

Similarly, he showed how paper sprayed with a thin layer of the "paint" can become conductive too. He says such conductive paper, or a conductive tape made from the plastic, could replace copper in coaxial cables, widely used in telecommunications.

Giants score on TV ads

The San Francisco Giants in the US will become the first major league baseball team to use defence industry technology to capitalise on advertising revenues earned during live broadcasts.

For the current baseball season the Giants have signed a contract with New Jersey-based Princeton Video Image, which uses a technology that can overwrite advertising on perimeter boards surrounding a sporting event with promotional material for another advertiser.

The genesis of the product is military technology designed to pick out missiles from their surroundings and track and destroy them.

PVI's proprietary L-VIS system inserts electronic signage, advertising or product displays into live programming with colour, lighting and motion so precise that viewers will not know it is happening.

There are at least two other providers of similar technology. One is Symah-Vision, a company in France's Lagardere Group, while the other is a joint venture between sports promotion company ISL and Orad, an Israeli defence contractor.

Brown Williams, president of PVI, says there has been limited use of the technology so far in the US's vast sports advertising market. It has been used for so-called Big Ten college football games broadcast on a sports cable channel and at least once on network television for the popular "Sugar Bowl" annual football game on New Year's Eve.

The technology is particularly important for the San Francisco Giants because, Williams says, no advertising is permitted on the hoardings around the stadium. The games will be seen by local viewers on KTVU-TV and on the cable channel, Sports-Channel Pacific.

Advertisers on the newly created ad space include international brands such as Kellogg, the world's biggest cereal maker, and GTE, the telecommunications company, as well as a local supermarket chain.

Norma Cohen

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A fashionable but facile show

British sculpture has not been given its just deserts at the Jeu de Paume, argues William Packer

Despite its remodelling after the eccentric modern fashion, the Jeu de Paume, overlooking the Place de la Concorde, is still a most beautiful gallery. Modern art looks very well in it, and with a couple of exceptions, this latest show, *Un Siècle de Sculpture Anglaise*, taken piece by piece, is shown to great advantage, with the larger pieces no less impressive outside in the gardens.

But any curatorial and thematic show should surely be something more than the sum of its parts, and we know we are in trouble the moment we find the sculpture *anglaise* of the title given in the English version of the handbook as "British". Such slight of hand might fool the French but not us. Surely some mistake, we might say, and when we read the list of artists represented, from Epstein to Anish Kapoor, we begin to wonder quite whose mistake it is.

The show is glossed in the British

Council's own literature as the most ambitious ever mounted at the Jeu de Paume, and the first major survey of British sculpture of the 20th century to be seen in Paris. But it has been chosen and curated by a Frenchman, Daniel Abadie, the director of the Jeu de Paume, very much as a personal exercise, hence no doubt the insensitivity of *anglaise* and the partiality and critical wilfulness of the selection. Here then is a wonderful opportunity squandered. We can only ask how it was that he was allowed to get it so wrong.

For wrong it is. It begins with Epstein and a single piece, the "Rock Drill" torso (1916) set so high in the entrance lobby as to be easily missed in the bustle for tick-

ets. It alone represents the sculpture of the 1910s and '20s which the student Henry Moore, just back from the wars, found so stimulating. Epstein, expatriate American and Jewish outsider, is at least included, but there is nothing of the expatriate Frenchman, Gaudier-Brzeska, nothing of Gill, Dobson, Jagger, Skeaping.

The show proper starts indeed with Moore - with a sidelong glance to Barbara Hepworth and Ben Nicholson, in his dubiously sculptural persona - in the 1930s. Thus again is the myth perpetuated, in which Moore himself conceived, that the story of Modern British Sculpture begins with Henry Moore. It is not to deny Moore's central importance, but

rather to enhance it, to insist upon the context out of which he emerged.

And so the show goes on in much the same partial and tendentious way, which would not matter if Abadie is only saying at each point that this is what he liked, or what interested him. He mysteriously gives us Eduardo Paolozzi's collages of the 1940s and early '50s, then jumps to his abstract assemblages of the 1960s. There is nothing at all of his grotesque figuration of the 1950s, nothing of his fellow Scotsman, William Turnbull, nothing of Reg Butler, Armitage, Dalwood, early Caro, Meadows or Chadwick -

nothing in short of that post-war generation that first suggested there was life in British sculpture after Henry Moore. For the 1960s, it is only Philip King to suggest that there was anyone but Caro and Paolozzi making the new abstract sculpture - no Tucker, Scott, Hall or Puntling. In the 1970s it is only Flanagan, Long, Gilbert & George and Michael Craig-Martin, in the 1980s Deacon, Cragg, Woodrow and Kapoor, in the 1990s Gormley, Rachel Whiteread and Damien Hirst.

Now not for one moment do I say there is no case to be made for showing any one of these artists, either collectively or singly. But to

throw them here together so casually serves neither them nor us, nor the cause of British sculpture. This is a facile but above all a fashionable show. British sculpture in its successive generations since the war has been of continuous interest abroad, the one field in which we might reasonably claim a sustained international pre-eminence. It has been a success fostered over many years by the British Council, and quite right too. But we have also seen the development of a curiously self-sustaining cycle. Why, we ask, are our sculptors so often shown abroad, rather than our painters? Because there is so much interest in them, comes the answer. Why is there so much interest? Because they are so well

known. And why are they so well known? Because we have shown them so often.

But there is one further twist to it that might explain if not excuse Daniel Abadie's myopia and short memory. Those in whom there is such interest are only those who have been so assiduously supported, and shown and shown again. The interest turns out to have a very narrow focus, which this show at the Jeu de Paume could hardly fix more sharply. And what was being done for Moore and Hepworth long ago is still being done for Caro, Long, Flanagan, Deacon, Cragg, Cornley, Whitehead, Hirst. Good luck to them, but there are so many others too, who have worked in the rich, broad field of British sculpture.

A Century of English Sculpture: Galerie Nationale du Jeu de Paume, Paris 1, until September 18; sponsored by IAP Assurance and presented in association with the British Council.

Theatre All rant and rave

Confess yourselves wondrous malicious! Or be accused of folly.

The bad boy of British theatre is back and his latest production is a bit of both. "Berkoff as Coriolanus" yells the bold, white-on-black banner emblazoned across the entrance to the Mermaid Theatre, but that is only part of it. He has also designed and directed this production seen last year at the West Yorkshire Playhouse.

It is impossible not to admire Berkoff's staging. In terms of the abundant physical skills of his company, he plays to strength. Eight highly drilled actors in black-shirts and jackboots play everything from the rioting Romans to the Volscian warriors with minimal costume changes and to maximum effect, drawing on rigorous mime, freeze-frame and stylised action. The bold, cold fight sequences have a visceral charge and the stark simplicity of their conception and execution is highly impressive. The sudden shift in space when the Volscian guard line up against David Henry's Menenius by springing to a perfect diagonal across the geometric marbled floor has great dramatic simplicity.

Paradoxically, that simplicity bedevils the characterisation. Detail and individuality are lost. The actors are so busy declaiming, you rarely get the sense they are listening to one another. At times, the language is so heavily underlined with action, it is as if you are watching a foreign-language film, complete with percussive musical soundtrack. The declamatory count is so high that the language is too often flattened through over-emphasis. Berkoff never allows the text to breathe, which means that even when you are impressed by what you are witnessing, you admire it, rather than become involved in it.

No-one is going to accuse



A dazzling armoury of vocal mannerisms stymie his physical prowess: Steven Berkoff as Coriolanus in his own production

this production of understatement. A charismatic, crepe-haired, sharp-suited figure fighting to control warring factions, Berkoff's portrayal of the title role looks like an enraged cross between the Royal Opera House public relations supreme Keith Cooper and its conductor Sir Georg Solti. Not that this London-vowelled, bully ever sounds remotely like the son of Faith Brook's steely aristocratic

Volturnus. The swoops and snarls, rants and roars in his dazzling armoury of vocal mannerisms stymie his physical prowess and his overwhelming, sneering rage is curiously inexpressive. You feel the actor's physical tension and intransigence, not the character's.

Like Iago, Tullius Aufidius is one of Shakespeare's show-stealing roles. True to form, Colin McFarlane seizes the

opportunity with a markedly still physical presence and a blessedly quiet authority. His sudden burst of anger at Coriolanus's capitulation to Rome is genuinely shocking. So much so, that you realise what you have been missing the rest of the evening.

David Benedict
At the Mermaid Theatre, London EC4 (0171-236 2211).

Ballet/Clement Crisp

Picasso recreated in Nice

Three cheers and more for imaginative programming. Today, when most mixed ballet bills look as if they are prime displays of chaos theory, the example of Jean-Albert Cartier is salutary. For years - as director of the Nancy Ballet, then of the Théâtre du Châtelet, then as administrator of the Paris Opera Ballet, now as director of the Nice Opera - he has put together evenings where a theme has been illuminatingly explored.

A Masine triple bill last year restored a tremendous *Rite of Spring* to the stage. A recent Ashton evening gave French audiences a rare chance to understand our founding choreographer. Now a programme of work decorated by Picasso includes another coup: a first chance in more than 70 years to see the *Cuadro Flamenco* set as it was intended to be. The effect of the evening, as I saw on Friday, is intoxication for the eyes as well as delight at the balletic acumen displayed.

Picasso's involvement with ballet, not least because of his first marriage to the Diaghilev dancer Olga Khokhlova, was vivid and came at key times in the history of the Ballets Russes. In *Parade* of 1917, and *Tricorne* of 1919 - both in the Nice programme - we see stage decoration as central to the balletic image. The two managers in *Parade*, the quintessential Spanish landscape and the prodigies of local costume in *Tricorne*, are the most potent guides to the world we enter.

In the scrupulous Nice revivals by Susanna della Patta and Evelyn Spattello, the ballets look as good as when I first saw them in Massine's own productions, and in the proportions of the Nice Opera stage admirably suit their action and shape. Both are focused, in visual elements as in choreographic text, and the Nice troupe dance them with a clear appreciation of their strong flavours. (Our local versions of *Tricorne* have had a distinctly Bogomol-out-of-season air.)



Jose Martinez in 'Le Tricorne'

The presence of Jose Martinez as a guest from the Paris Opera is an undoubted bonus; his Chinese conjuror in *Parade* is nicely enigmatic; his Miller in *Tricorne*, a role he has danced with great success in Paris, has the youth and the taut rhythmic sense, the electric shape to every step, which is essential for the role. I have not seen a better interpreter since Massine himself. A welcome, too, for Tamara Rojo, a guest from the Victor Ullate Ballet. She is lovely, she plays with tremendous charm and not a little wit, and the role lives as I have not seen it since Violetta Elvin brought it to life in the late 1940s. From the Nice dancers, in both these Massine works, a strong sense of ensemble, and the sort of lively playing that is needed if the old repertory is to survive.

there is nothing jaded or predictable here. For the *Cuadro Flamenco*, Cartier has adapted Diaghilev's manner with the original staging, as well as the Picasso design. In 1921, Diaghilev had to fill out his programme for Paris and London, and decided to show a troupe of Flamenco dancers as a very "different" novelty. In Seville he saw, and recruited, a ravishingly beautiful girl, to whom he gave the stage name Maria Dalbacin, and told his manager to gather a group of gypsy dancers around her. Unpredictable, and including one street beggar without legs and a dwarf, they gave his manager hell. Anguished telegrams to Diaghilev include the words "Ramirez has lost his wits" - "nasty disposition" - "they all repeat all dotry". But arrive they did, and they appeared in a setting by Picasso which showed the interior of a little theatre, with boxes on either side occupied by a couple of Spanish beauties.

This decor Cartier has had brilliantly re-created, and has invited Cristina Hoyos to bring her troupe to dance in it, with their own versions of the dances that were originally shown by Diaghilev. The result is splendid in every way. The set is charming, red and gold and lovingly conceived by Picasso as a view of a small stage; he painted some of the original by hand. The dances sit splendidly within it - how good to see Flamenco in a more ordered frame - and Mme Hoyos (on blazing form at the first performance on Friday) and her dancers provide a disciplined but far from predictable display. The gamble of reviving this long-lost set, and restoring its theatrical life, has been handsomely won. A final salute for the orchestral playing in *Tricorne* and *Parade*: Bruno Ferrandis drew admirable interpretations from the Nice Philharmonic. Mme Hoyos' musicians and singers were tremendous.

This programme will tour in Portugal and Spain during the next month.

Pop/Antony Thornecroft

Van the Man

Van Morrison, OBE - no, not OBEse. Balding Eccentric Ulster's greatest gift to world music has been honoured by the Queen with the Order of the British Empire. Significantly, she was not acting on his personal wish. Van Morrison will collect his gong because he is the people's choice - his fans petitioned in his favour by the sackload.

They were in a surprisingly reverential mood when he appeared at Wembley Arena on Saturday night. Perhaps they could not see him. Surrounded by a dozen musicians, the spotlight refused to shine on the tubby man shrouded in black. As a less than mercurial mover he likes it that way. You had to fasten on the voice - that great, deeply honed mix of Guinness and honey - to catch the Man.

He seemed happy, one of the crowd, with no obvious angst. From the recent break up of his romantic attachment, although the one new song "Here I am again, back on the corner again", suggested he carried some scars. For the rest he cruised through an hour long set of old bluesy favourites, bolstered by a boisterous brass section and George Fame, coolly, on keyboards.

There was little Celtic mysticism on show; much bar room merriment. He even finished with "Mooncane". "We are trying to bring a small, intimate, situation to a big arena" he explained, which means that the band joked a lot

fashioned band show, with tiered musicians and a tedious girl vocalist.

Finally, smiling fit to bust, the blind trouper was led to his keyboard stool, and the evening suddenly took off. Charles still delivers. It was all the old favourites, from "Georgia" to "Busted", but the voice is as earthy and droll as ever, and he shakes his body like an electric marionette.

Touring with this cheerful old man may explain why Van Morrison has discovered fun. But you can have too much entertainment and when, at approaching midnight, Ray called the chorus girls on stage, it was time to leave the old un's to it.

At Wembley Arena tomorrow, then to Manchester (Fri), Birmingham (Sun), and Newcastle (Mon).

INTERNATIONAL ARTS GUIDE

- BERLIN**

EXHIBITION
Bröhan-Museum
Tel: 49-30-3214029
● Wasser und Wetter. Das Motiv des Wassers in der Kunst des Jugendstils: exhibition devoted to water as a source of inspiration for the artists of the Art Nouveau movement. The display includes paintings, porcelain, and works in metal and glass; to Sep 15

OPERA
Staatsoper unter den Linden
Tel: 49-30-2082851
● Staatsoper unter den Linden: with conductor Antonio Pappano perform Mascagni's *Cavalleria Rusticana* and Leoncavallo's *I Pagliacci*. Soloists include Pflowitz, Papp, Kammerhofer and Botha; 7pm; Jun 19, 21
- COPENHAGEN**

CONCERT
Tivoli Concert Hall
Tel: 45-33 15 10 01
● Tivolis Symfoniorkester: with conductor Walter Waller and bass

- Thomas Quasthoff perform works by Mahler and Beethoven; 7.30pm; Jun 20
- DRESDEN**

EXHIBITION
Albertinum Tel: 49-351-4953056
● Theodor Rosenhauer zum 95. Geburtstag: exhibition on the occasion of the 95th birthday of the German landscape and portrait painter Theodor Rosenhauer. The display includes some 30 works, 12 of which come from the private collection of the artist; to Jun 19
- EDINBURGH**

EXHIBITION
National Gallery of Scotland
Tel: 44-131-5568921
● Awash in Colour: Great American Watercolours from the Museum of Fine Arts, Boston: this exhibition presents a collection of over 50 watercolours from the museum. The display includes works by Winslow Homer, Edward Hopper and John Singer Sargent; to Jul 14

OPERA
Edinburgh Festival Theatre
Tel: 44-131-5296000
● La Traviata: by Verdi. Conducted by Stephen Clarke and performed by the Scottish Opera. Soloists include Claire Rutter, Richard Coxon, Jonathan Summers and Helen Lotchin; 7.15pm; Jun 19, 21
- LEIPZIG**

CONCERT
Gewandhaus zu Leipzig
Tel: 49-341-12700
● Das Paradies und die Peri: by R. Schumann. Performed by the

- Gewandhausorchester and the Gewandhauschöre with conductor John Nelson. Soloists include S. Isokoski, A. Vogel, B. Fink, H.P. Slochwitz, M. Krummbiegel and F. Ulla; 8pm; Jun 20, 21
- LONDON**

CONCERT
Purcell Room Tel: 44-171-9604242
● Jane Manning and Sybil Michelow: performance by the soprano and mezzo-soprano, accompanied by pianist Miriam Brickman, flutist Philippa Davies, viola-player Rivaia Solari and baritone Simon Vaughan. The programme includes works by Gershwin and Satoru; 7.30pm; Jun 20

DANCE
Royal Festival Hall
Tel: 44-171-9604242
● Cinderella: a choreography by Michael Corder to music by Prokofiev, performed by the English National Ballet; 7.30pm; Jun 19, 20, 21, 22 (also 2.30pm)

EXHIBITION
Queens Gallery
Tel: 44-171-9304832
● Leonardo da Vinci: One Hundred Drawings from the Collection of Her Majesty The Queen: this exhibition includes preparatory sketches for paintings such as the "Adoration of the Magi" and the "Last Supper", designs for equestrian monuments, war machines and costumes for court entertainment; to Jan 12

OPERA
London Coliseum
Tel: 44-171-8360111
● La Bohème: by Puccini. Conducted by Alex Ingham and performed by the English National

- Opera. Soloists include Anne Williams-King, John Hudson and Roberto Salvatori; 7.30pm; Jun 20
- THEATRE**
Barbican Theatre
Tel: 44-171-6388891
● Richard III: by Shakespeare. Directed by Steven Pinnott and performed by the Royal Shakespeare Company. The cast includes David Troughton; 7.15pm; Jun 20, 21, 22
- LYON**

CONCERT
Auditorium Tel: 33-78 95 95 95
● L'Histoire du Soldat: by Stravinsky. Performed by the Orchestre National de Lyon with conductor Gérard Lefebvre and narrator Moshe Leiser; 2.30pm; Jun 19
- MADRID**

EXHIBITION
Fundación Colección Thyssen-Bornemisza
Tel: 34-1-4203944
● From Canaletto to Kandinsky: Masterpieces from the Carmen Thyssen-Bornemisza Collection: this exhibition features a selection of about 90 works from the Baroness's private collection; to Sep 6
- NEW YORK**

CONCERT
Avery Fisher Hall
Tel: 2-12-675-5030
● Tony Bennett: benefit concert for the Babies & Children's Hospital; 8pm; Jun 19
Carnegie Hall Tel: 2-12-247-7800
● Louisiana Purchase: a full-length

- concert version of this musical by Irving Berlin, performed by The Carnegie Hall Theatre Orchestra led by Rob Fisher. Soloists include Judy Blazer, Taina Ely, Debby Shapiro Grenville, George S. Irving and Michael McGrath; Wed 7pm, Thu - Sun also 3pm; from Jun 19 to Jun 23
- EXHIBITION**
Whitney Museum of American Art
Tel: 2-12-570-3800
● An American Story: a chronological survey of the museum's permanent collection of 20th-century American art. Divided into 15 categories and incorporating more than 200 paintings, sculptures, prints, drawings and photographs, the exhibition provides an extensive overview of the art of this century; to Oct 6
- PARIS**

CONCERT
Maison de Radio France
Tel: 33-1-42 30 22 22
● Orchestre Philharmonique de Radio France: with conductor Marek Janowski and pianist Pierre-Laurent Aimard perform Herzl's Symphony No.8, Tchaikovsky's Requiem for Strings and Schoenberg's Piano Concerto; 8pm; Jun 20

DANCE
Théâtre National de l'Opéra - Opéra Garnier
Tel: 33-1-42 66 50 22
● Ecole de Danse Opéra National de Paris: perform Balanchine's Western Symphony to music by Kay and Lifer's La Chavallerie et le Danseur to music by Gaubert; 7.30pm; Jun 19, 20, 21, 22

EXHIBITION
Musée du Petit Palais

- Tel: 33-1 42 85 12 73
● Albrecht Dürer. Oeuvre gravé: exhibition of woodcuts and engravings by Albrecht Dürer (1471-1528) from the museum's collection; to Jul 21
- FESTIVAL**
Festival de Musique Française - Musique on Sorbonne
Tel: 33-1 42 62 71 71
● Festival de Musique en Sorbonne: annual classical music festival taking place at the Sorbonne University in Paris. This year the festival is devoted to the Spanish composer Manuel de Falla, on the occasion of his death 50 years ago; to Jun 25
- OPERA**
Théâtre de l'Opéra Comique
Tel: 33-1 42 44 45 48
● Carmen: by Bizet. Conducted by Lawrence Foster and performed by the Opéra Comique. Soloists include Katarina Karnauska and Luca Lombardo; 7.30pm; Jun 19, 21
- VIENNA**

OPERA
Wiener Staatsoper
Tel: 43-1-514442960
● Don Carlos: by Verdi. Conducted by Fabio Luisi and performed by the Wiener Staatsoper. Soloists include Andrea Gruber, Nina Terentjeva, Samuel Flarye and Luis Lima; 6.30pm; Jun 19, 22

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COMMENT & ANALYSIS

And so to Lebed

Yeltsin needs the general's help to build on his first-round election win, says Chrystia Freeland

Like General Kutuzov, the fat, slow-witted warrior credited by Tolstoy with defeating Napoleon's armies because "he was one with the Russian people", Russian President Boris Yeltsin has once again shown that he has the best political instincts in the country.

Elsewhere, there would be nothing spectacular about an incumbent candidate who, with all the machinery of the state working in his favour, managed to beat his nearest opponent by less than three percentage points and was forced to meet him again in a second round of voting. But in Russia, which has lost half of its economy and most of its empire under Mr Yeltsin's stewardship, the president's narrow lead over Mr Gennady Zyuganov, his communist rival, in Sunday's ballot is a remarkable political comeback.

When the election date was set at the beginning of this year, some of Mr Yeltsin's closest political allies publicly warned that Mr Zyuganov was unbeatable. After five years of turbulent political and economic change, which had lowered incomes and shortened life expectancy, opinion polls showed that Russians, like their eastern European neighbours, were ready to swing back to the communists. Most surveys put Mr Zyuganov far ahead of the president.

Yet Mr Yeltsin - a hard-living, 65-year-old grandfather who suffered two heart attacks last year - has danced, joked and flag-waved his way back into the hearts of millions of Russians with a frenetic round of campaigning over the past four months. It has included everything from doing the twist with mini-skirted teenagers to presiding over a military parade from the solemn perch of Lenin's mausoleum.

But Mr Yeltsin has not yet campaigned himself on to the pages of some fledgling Tolstoy. His slight edge is a significant achievement, but he has not yet won the war.

Observers ranging from the US ambassador to Russian and western investors - who pushed share prices up yesterday - are betting that Mr Yeltsin's margin on Sunday will translate into a clear triumph against Mr Zyuganov in a second round of voting in the next three weeks. But some Yeltsin aides have warned that the president cannot afford to rest on his laurels.

"It would be wrong to limit ourselves to victory reports," Mr Yuri Baturin, the president's adviser on national security, warned yesterday. "There have also been setbacks."

One of the greatest dangers, Mr Baturin and other members of the campaign team say, is that the president risks becoming a victim of his own success. Over the past few weeks, Mr Yeltsin's political blitzkrieg has left no corner of Russian life untouched. The campaign has reached from the chandeliers of reception rooms of the Kremlin, where waiters are under orders not to offer vodka to the president, to the nation's airwaves, which are so dominated by Mr Yeltsin that even football commentators implicitly plug the president in jabs between goals.

Presidential staffers fear many of the country's 105m voters will be so exhausted by the saturation coverage of Mr Yeltsin that they may not show up at the polls for the second round.

"Many of Yeltsin's supporters begin to reason along the following lines: 'Boris Nikolayevich will win as it is and for this reason there is hardly any



Three front-runners: from left, Boris Yeltsin, Alexander Lebed and Gennady Zyuganov

need to go and vote," warns Mr Baturin.

The president's men are taking voter fatigue so seriously that they are trying to move the second round vote to the middle of the week from the traditional Sunday.

Mr Yeltsin's strongest chance of holding the attention of Russia's weary voters, and regaining the momentum he had built up earlier this month, would be to seal a bold strategic alliance with the new man of the hour, Mr Alexander Lebed, the retired general who won third place and a powerful new role as kingmaker in Sunday's voting.

Mr Lebed, a moderate nationalist who has pulled away many votes from Mr Vladimir Zhirinovskiy, the flamboyant xenophobe of Russian politics, has been firmly anti-establishment on the campaign trail. He has railed against "the bandits" who rule the country, and argued that Mr Yeltsin and Mr Zyuganov represent two faces of the old, unloved communist *nomenklatura*.

But Mr Lebed's open lust for power - he told television viewers on Sunday night that he was destined to rule Russia - could make him open to the offer many of Mr Yeltsin's senior allies are urging the Kremlin leader to extend: Mr Lebed met Mr Yeltsin yesterday, and leading pro-Yeltsin officials, including Mr Victor Chervomyrdin, the prime minister, have hinted that an important post could be

reserved for him in a new Yeltsin government.

The problem for Mr Yeltsin is that some members of his entourage, especially businessmen, might oppose the adoption of Mr Lebed; as an outsider with a reputation for getting things done, Mr Lebed might actually act on his campaign pledge to root out government corruption.

"Now comes the tricky time for Yeltsin. He has to reach out and show the contours of his new government and make a deal with Lebed, but the big question is: will his camarilla [clique] allow it?" says Mr Peter Schulz, Moscow director of the Friedrich Ebert Foundation, the German think-tank.

At a time when Russia is deservedly celebrating its first democratic vote for a national leader, such fears serve as a reminder that even if Mr Yeltsin is re-elected in the second round, his triumph will hardly be a victory for the western-style political and economic freedoms he seemed to promise when Russians first selected him as their leader in 1991.

Instead, as the US diplomat Thomas Graham observed last autumn in a much talked about article on Russia, a Yeltsin win would be a triumph for the occasionally fractious but ultimately allied Kremlin clans which rule Russia today. To keep the peace between these powerful insiders Mr Yeltsin will need to remain as wily as Gen Kutuzov, even after the vote.

LETTERS TO THE EDITOR

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Euroceptic's 'calculation' based on a nonsensical piece of arithmetic

From Mr Derek Prag MEP.

Sir, Philip Stephens in his usual - perceptive article, "Put it to the vote" (June 14), said that the Euroceptics' crystallisation of the Europe debate into one of "In" or "Out" would cause them "to produce all sorts of spurious statistics and assumptions..."

They have, of course, been doing this for some time. Their allegation that what Britain originally joined was only a free trade area is just one of the most glaring examples of their factual errors.

There was another example in the same issue of the FT: Prof Minford's "calculation" that "net UK contributions to the Common Agricultural Policy and inflated food prices

cost about £10bn a year". What a nonsensical piece of arithmetic! The net contribution to the CAP is of a different genus from the level of food prices. In the first place, the net contribution can be calculated with reasonable accuracy: the CBI, among others, has done so and given us the figure of £2.1bn for our total net contribution last year - not just for agriculture but for everything.

As for food prices, Prof Minford ought to know very well that a credible calculation of what food prices would have been if we had had genuine free markets for food in Europe and elsewhere is impossible, given the large-scale intervention in agricultural

policy by governments in all industrial countries. Calculations based on prices on small residual free markets - the so-called "world markets" - are meaningless.

Doubtless, as Philip Stephens says, we shall be getting much more of the same (some of it from people who ought to know better). Is it because they have such a poor case that the Euroceptics put forward such outrageous nonsense?

Derek Prag, chairman, London Europe Society, Pine Hill, 47 New Road, Digswell, Welwyn, Hertfordshire AL9 9AQ, UK

Hospitals and private finance

From Ms Janet Salmon.

Sir, The Private Finance Initiative will not work in the UK National Health Service because it attacks the core of a free, publicly funded service based on medical need and not one's ability to pay. The government has cut £400m of capital spending on hospitals, but the PFI is so complex that, while millions of pounds have been spent on submitting bids, no new hospital contract has been signed.

The Labour party is sitting on the fence as usual. While Harriet Harman, shadow health secretary, states she would "discourage the signing of such contracts", because it ties the hands of future governments, Gordon Brown, the shadow chancellor, is making no commitments on funding new hospitals until he has seen the books. Neither the taxpayer nor the local community is consulted on whether they want their local hospital rebuilt with private finance. Both are unaware of the potential ramifications on access to services and waiting times for operations.

The government demands that health authorities should explore the use of private finance before public funds can be considered. The result of this policy is decaying hospitals, increased bureaucracy and increased interest charges to borrow money as a private rather than a public organisation.

Janet Salmon, 43 Montague Road, Richmond, Surrey TW10 6QJ, UK

Modification by gender

From Ms Victoria Andrews.

Sir, You described Ms Sheila Masters as "arguably Britain's leading woman accountant" (June 15/16). The description should not be modified by gender since it is not gender, which determines an accountant's ability, if the description is to be qualified, a field of professional interest would be appropriate.

Victoria Andrews, 12 Gayton Road, London NW3 1TX, UK

Facts of life still painful experience

From Mr Niall FitzGerald.

Sir, On June 10, you published three letters in response to my article on why EU membership is vital to this country. I am delighted to have provoked further discussion on such a crucial issue.

I wrote the article from the head as well as the heart. As the vice-chairman of a multinational company employing 22,000 people in the EU, I know our membership of the EU is fundamental to our future economic success. As chairman of the Confederation of British Industry's Europe committee, I also know the business community strongly agrees with me. CBI policy is subjected to rigorous consultation within the membership, across all types and sizes of firm, in every region. If they didn't think it, I wouldn't have said it.

I was not indulging in Eurospeak, nor am I even remotely anxious to join a gravy train of any description. All I was doing was pointing out the facts of life. Apparently, there are some people for whom this is still a painful experience.

Niall FitzGerald, vice-chairman, Unilever, Unilever House, Blackfriars, London EC4P 4BQ, UK

The real debt relief agony is suffered by the poorest countries, not World Bank

From Prof Sir Hans Singer.

Sir, Robert Charles's article "World Bank agonises over debt relief" (June 10) raises some interesting issues, but also some serious doubts.

In the first place, one may question the whole approach of providing a package of burden-sharing between bilateral and commercial creditors on the one hand and the multilateral creditors (World Bank and the International Monetary Fund) on the other hand.

The present subject under debate is multilateral debt relief. A good deal of recent bilateral aid has *de facto* served to enable countries to service their multilateral debts - a House of Commons committee has already expressed serious concern at this situation.

This does not mean that raising the Naples terms from 67 per cent to 80 per cent, or even to the 90 per cent suggested by the World Bank and IMF, would not be a good thing.

Leaving this aside, one can also question the tying of the total debt relief package to the growth rate of export earnings of poor debtor countries. What seems relevant is not the rate of increase in export earnings, which is under dispute between the World Bank and IMF, but the ratio of export earnings to the unit

cost of imports - in other words, the purchasing power of exports or income terms of trade.

It also seems highly optimistic to assume that total debts up to 200 per cent of exports are acceptable. If we assume a debt service ratio (interest and amortisation) of 10 per cent, this would mean that 20 per cent of export earnings are pre-empted for debt servicing, and thus not available for financing urgently-needed imports.

Finally, one must also question the contribution that a use of proceeds from sale of a modest portion of IMF gold or of the ample World Bank reserves would endanger the triple A credit rating of these two institutions. This depends on the full support and guarantees from the big financial powers rather than their stock of gold or their balance sheet. It is to be hoped that the coming G7 summit in Paris will constructively deal with these problems.

The real agony is not that of the World Bank, as the article's title suggests, but rather that of the poorest debtor countries. Hans Singer, Institute of Development Studies, University of Sussex, Brighton, BN1 9RE, UK

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Interview - Peter Drucker

An iconoclast with ideas

The management theorist speaks to Richard Donkin

Peter Drucker has reached the stage of life where he has the time to re-read books. He is now reading Jane Austen and William Thackeray, and finds Austen's economy and elegance with words instructive for his own writing. "It's a very good antidote to modern sloppiness and language corruption," he says.

The dissemination of complex ideas in simple prose is a lifelong passion for Drucker, the Viennese-born writer, who has already secured his niche in business history as the father of post-war management thinking.

Drucker himself rejects the "guru" label. With more than 20 management books to his name and an early career in newspapers, he prefers to be known as a journalist and writer.

For many business leaders across the world, however, he remains the doyen of modern management theory, not so much because he can lay claim to being the founder of any particular concept such as "business re-engineering" or "total quality management" - but because he has demonstrated a rare ability to apply common sense to the analysis of management challenges and their solutions.

Today, at the age of 87, he is still writing, still teaching and still thinking.

He believes the medium-sized company is going to inherit the earth and that the corporate giants are "doomed to extinction". Drucker also thinks managers still have much to learn, often in fairly basic skills. "The one thing that most managements are least proficient in is the management of currency," he says. "Most management people I know still believe that the Bible begins with the words: 'In the beginning God created



Peter Drucker, doyen of modern management theory

stable exchange rates". He is openly scornful of those who have rewarded themselves for executing downsizing operations with salary rises, bonuses and stock options. "This is bluntly immoral," he says. "There's an old saying among surgeons that the worst surgeon is the one who amputates before making the diagnosis and that's what downsizing, in most cases, has been."

But Drucker has always been far more than a management writer and consultant. He draws on subjects as diverse as Japanese art, English literature, medicine and taxonomy. An admirer said he was "one of the last encyclopaedias".

Drucker's seminal work, *The Practice of Management*, published in 1954, distilled many influential ideas on a broad range of topics, including the role of marketing and the importance of clear corporate and management objectives. It also stressed the need for a short chain of command, pre-dating the much later trend

towards flatter hierarchies by more than 25 years.

In this and a later book, *Tasks, Responsibilities, Practices*, published in 1973, Drucker laid down five basic tasks for the manager, whom he described as "the dynamic, life-giving element in every business"; to set objectives, to organise, to motivate and communicate, to measure and to develop people.

The management hooks cemented a reputation that had already been established in his 1946 study of the workings of General Motors, *Concept of the Corporation*, the first detailed analysis of a company's operations.

He later concentrated on such qualities as innovation, entrepreneurship and the growth of the "knowledge worker", but he remains primarily associated with a rationalist view of management and organisations.

Although a naturalised American, his accent and his approach to work remain heavily influenced by his

upbringing in the austere atmosphere of Austria between the wars. Drucker's father was at one time the chief economist in the Austrian civil service.

In spite of his professorships in the US - he was professor of philosophy and politics at Bennington College, New England, from 1948 to 1952, then professor of management at the Graduate School of Business, New York University, and now professor of social sciences at Claremont Graduate School in California - he still insists that he is "not academically respectable".

"This is partly because he refuses to play by the rules of academia. For example, he scorns footnotes which are virtually a prerequisite for US academic publishing. 'I have no use for footnotes. One uses footnotes only as a cross reference and if one uses somebody else's thoughts, otherwise footnotes are a pedantic game. Only now in my very old age has academia been willing to accept me,' he says.

Even in his work, for the governments of the US, Canada and Japan, he says he remained an outsider. "I have always been politically incorrect. I have never belonged to the outer circle. Let alone the inner circle. No, I am an outsider and I am a loner. I have always done my own work."

"This is the way that Drucker prefers to see himself. He titled his autobiography *Adventures of a Bystander*. Today, working much of his time from his home in Claremont, which he shares with his wife, Doris, he continues to display an iconoclast undiminished by his years - and to harness his intellect to a belief in hard work that has enabled him to write prolifically throughout his life.

His approach, he admits, may be considered old-fashioned. But he can live with that. He says: "I was old-fashioned all my life."

FINANCIAL TIMES

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Tuesday June 18 1996

No euphoria over Russia

Perhaps the best thing about the first round of Russia's presidential election is the mere fact that it happened. After weeks of recrimination, with the contenders accusing one another of contemplating fraud on a massive scale, the voting and counting procedures have been acknowledged by all sides as broadly fair.

While President Boris Yeltsin undoubtedly made ruthless use of the advantages of incumbency, and his domination of the airwaves, it has to be recognised that the selection of Russia's next head of state was a matter of open and vigorous contest.

As for the result, here again things could have been a great deal worse. Mr Gennady Zyuganov, the neo-communist who defends Stalin's record and trades openly on nostalgia for the Soviet regime, failed to top the poll, as seemed very likely until a few weeks ago. Mr Vladimir Zhirinovskiy, the ultranationalist rabble-rouser, fared worse than expected, and has been denied the chance to act as king-maker.

Mr Yeltsin, who in western eyes represents the hope but not the certainty of continued reform, has a good chance of building on his 35 per cent score to win the second round. But he will have to work hard for his victory, and compromise with some of his rivals. That too seems a just verdict on a man who has launched Russia on the road to liberal capitalism but must also take the blame for unleashing the war in Chechnya.

But while the worst has been avoided, western governments should certainly not be carried away by euphoria. Despite the personal rivalry between the leading candidates, there is a degree of convergence in their attitude to

the US and western Europe. It is a brand of nationalism that lies somewhere between the relentless enmity of the cold war and the pro-western euphoria that followed the Soviet collapse. While both Mr Yeltsin (in practice) and Mr Zyuganov (at least in theory) acknowledge the merits of doing business with the west, they are both inclined to view Russian-western relations - particularly in the field of European security - as an adversarial, zero-sum game.

The emergence in a pivotal role of General Alexander Lebed, who spent his formative years fighting US-backed rebels in Afghanistan, is unlikely to make the policy of Russia's next administration any more pro-western. And the poor performance of Mr Grigory Yavlinsky, the only candidate who has consistently supported reform, is a reminder of how much the liberal segment of the electorate has retreated.

All this suggests that whatever coalition emerges from the deal-making that will take place over the coming days - and a Yeltsin-Lebed tandem now seems the most likely - Russia will continue to need careful handling.

The first challenge facing the West is whether or not to admit Russia as a full member of the Group of Seven industrialised nations. Mr Yeltsin already attends the Group's discussions on political issues, but not the G7 economic summits. Given the fragile state of Russia's economy, it would be premature to offer full G7 membership now. It would also be naive to expect that Russia, whoever its president, would show goodwill in return. The Russia that emerges from these elections is going to be a more prickly, nationalistic partner, whoever wins the second round.

Performance pay

The prospect of pay increases of 30 per cent for backbench MPs and of still more for government ministers is being met with some anticipation in the UK House of Commons. The Top Salaries Review Board, which met yesterday to finalise its proposals, is expected to recommend the awards before the end of the month. The MPs, uniquely authorised to decide their own pay, will then vote on the package before leaving Westminster for their leisurely, three-month summer break.

Even before the precise figures are announced, MPs are carefully rehearsing their self-justificatory arguments. By international standards, their basic pay of £34,000 a year is low. At home, it has fallen behind that of comparable professions. Politics needs to attract talent. The recommendations of the board represent an independent judgment. And so on. Needless to say, there is no men-

tion of the fact that many MPs treat Westminster as a part-time career, combining it with lucrative posts in law or banking or with chutes of company directorships. Nor apparently do they see a contradiction in obliging other public sector workers to finance even small pay awards from productivity gains (usually job losses) and attaching no strings to their own, much larger increases.

There is a case for paying MPs more but only if their remuneration is tied closely to performance. Those who insist on pursuing outside careers should not expect extra subsidies from the taxpayer. Those willing to play an active role in parliament should be rewarded accordingly. There is one more thing. Any award should be self-financing, paid for by cutting the numbers of MPs and ministers alike. Even at present pay rates too many of them are expensively under-employed.

Buying loyalty

J. Sainsbury's decision to launch a nationwide loyalty card means all the big British supermarkets are either offering such cards or experimenting with them. The trend has important lessons for all those involved in consumer goods marketing.

Sainsbury has been pushed in this direction, obviously reluctantly, by the astonishing commercial success of Tesco's Clubcard, which helped push up market share by 1.6 percentage points in the past year. In one sense, these cards are no more than a form of general discounting, a more sophisticated version of the Green Shield stamps of the 1960s.

Compared with straightforward price competition they offer some advantages, not least by making it harder for customers to compare rivals' net prices directly. But they are still expensive: Sainsbury reckons it will have to raise turnover by 3 per cent to break even on its new loyalty scheme, a figure which it may struggle to achieve now that such promotions are general.

But the real potential of the loyalty cards is the opportunity they offer to move the supermarket chains decisively towards relationship marketing, the Holy Grail in consumer circles. Because customers must present their cards each time they shop, the supermarket chains are able to capture huge amounts of data about what and how often their customers buy.

In principle, this allows the chains to tailor promotions accurately to the customers most likely to be receptive to them, getting them off the treadmill of inefficient and expensive coupon promotion. It holds out the prospect of easy diversification into other

business activities, especially services - as Tesco's nascent bank account demonstrates.

The customer data banks, if properly exploited, also become a weapon in the information war between supplier and retailer. Big manufacturers of fast-moving consumer goods have been attempting to cut out the middle man - at least in information terms - by building huge customer databases, and marketing directly to shoppers through the mail. Heinz has been particularly aggressive, shifting its marketing spending sharply in this direction.

The jury is still out, however, on just how effective the manufacturers' relationship marketing efforts will be. Retailer loyalty schemes may well offset any advantage that the manufacturers might gain, not least by giving supermarkets their own brands the same sort of support. The success of the own brand owes a great deal, after all, to the strength of the supermarkets' existing relationships with their customers, a firm foundation on which loyalty schemes can build.

The supermarkets now set a benchmark that marketers in all consumer industries must meet. The challenge is threefold: to establish the same strength of brand relationship that the supermarkets have achieved; to derive useable information from that relationship; and then to turn it to lasting commercial advantage, both in the core business and outside.

The supermarkets have leapt up the first two steps of this ladder. They are working hard on the third. Other businesses will need to follow suit. After all, as Tesco has shown, loyalty schemes increase the rewards for being big - and quick.



The unthinkable is being thought. It is not just being thought, but being thought out loud. Would it be so dreadful for the UK to leave the European Union? The people of Bristol would not ask themselves whether the advantages of staying in England outweigh the disadvantages. They define themselves as English. At some point the people of the UK may similarly identify themselves as Europeans first and British second. That time is certainly not now. They can still ask of the EU the question Scots are asking of the UK: what is in it for us?

The question can be answered only with difficulty, for three reasons. First, economists are unable to quantify with precision the economic effects of membership. Second, many of the potential effects lie in the future. Third, the benefits of staying in can only be assessed against the costs of being outside. But the latter depend on the accommodation that could be reached between a departing UK and the rest of the EU.

Nevertheless, one point can be made with confidence. The most dynamic region - east Asia - contains no economically significant preferential trading arrangements. Free-trading Hong Kong's real income per head in 1994 has been estimated by the World Bank at \$23,100, above that of any member of the EU, except tiny Luxembourg. Privileged access to a large market is, in short, not the prime determinant of an economy's success.

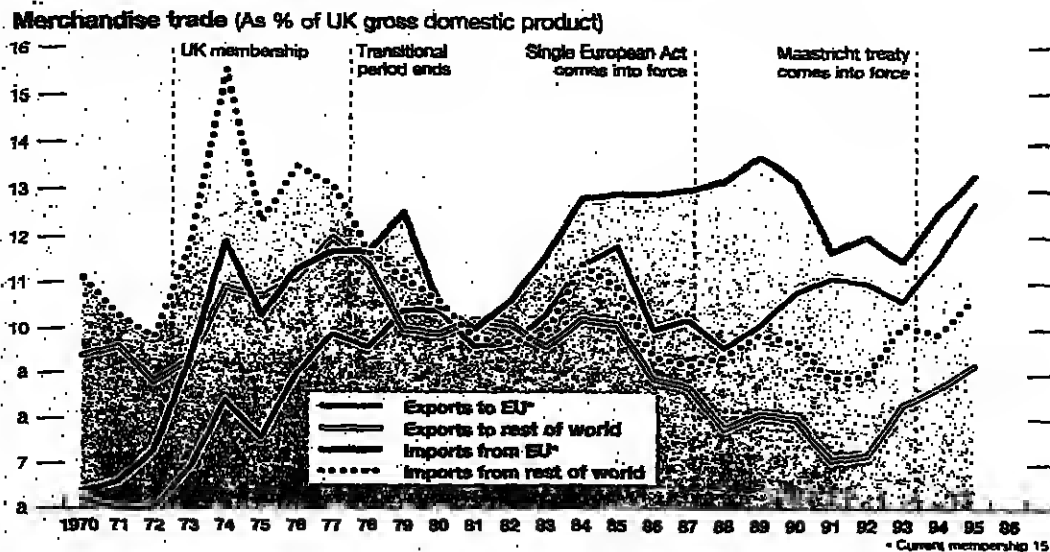
That is determined, instead, by protection of property rights, quality of education, flexibility of markets, thrift, entrepreneurship, openness to trade and levels of taxation. Membership of the EU can have decisively altered the UK's prosperity only if it had an impact on one of these. Since the economy has grown at an average annual rate of less than 2 per cent since 1973, there is hardly much to explain.

How might the EU have made an impact? The starting point for serious analysis of the net economic benefits of EU membership is an appreciation of what it is: a trading bloc that has combined liberalisation with discrimination.

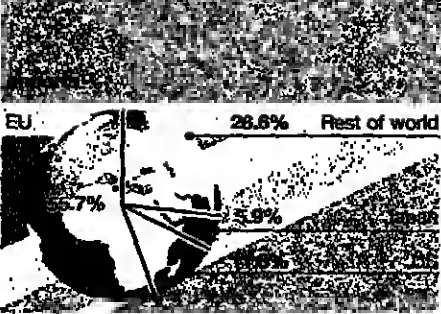
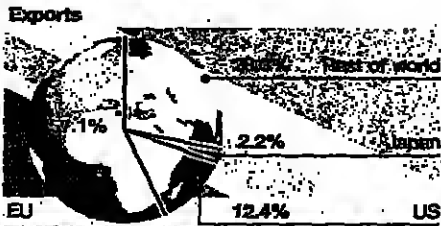
To the extent that it has liberalised trade it should increase competition and so promote growth. To the extent that it discriminates against outsiders, it will reduce competition and growth. The latter can have damaging long-run effects. Trade creation occurs when, for example, cheaper German products replace costlier UK ones. Trade diversion occurs when more expensive German products replace cheaper Japanese ones.

Although these concepts measure only static gains and losses, they are at least a useful starting point. Thus, a country such as the UK gains from its own trade creation - though it can achieve the same benefit by liberalising unilaterally. It

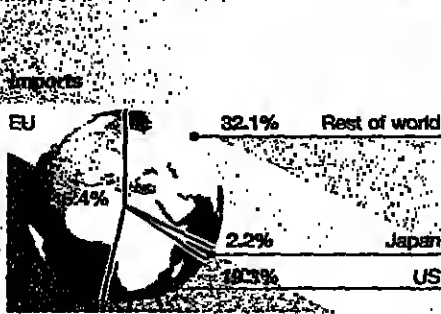
Trading places: the EU's rising share in UK trade



Merchandise trade (1994)



Services trade (1994)



normally gains in the short term from trade diversion by its partners in its favour. It also gains from its partners' trade creating liberalisation if it is the world's most competitive supplier. It loses, however, when it must substitute high-priced imports from its partners for cheaper imports from elsewhere.

A study of the costs of EU membership from the Campaign for an Independent Britain points with alarm to the deterioration of the UK's trade balance with the EU in manufactures, from a surplus of \$285m in 1970 to a deficit of £5.5bn in 1990.* This is economically illiterate: it treats a bilateral trade balance as a measure of the benefits of trade; and it ignores the possibility that the increased imports from the rest of the EU were economically beneficial.

These authors could be right, however, if the rising imports from the EU represented trade diversion - in other words were at the expense of cheaper imports from elsewhere. For this reason, it is wrong to jump from the growing propensity to trade with the rest of the EU to the conclusion that this trade must be mutually enriching. The question is whether it represented costly trade diversion or beneficial trade creation.

One way of answering is to see whether the rising imports from the EU displaced domestic output or imports from elsewhere. The ratio of imports from the rest of the

world to UK gross domestic product has oscillated, partly because of the fluctuating price of oil. But, at 10.7 per cent in 1995, it is close to the average between 1972 and 1973. Meanwhile, the ratio of imports from the EU has tended to rise, from 9 per cent in 1973 to around 13 per cent. This suggests there has been trade creation, with imports from the EU displacing domestic output.

In his recent analysis of the balance of advantage of EU membership of the EU, Professor Patrick Minford of Liverpool University focuses attention on the two areas where trade diversion is most likely to be significant. These are agriculture, where the replacement by EU produce of cheap imports from countries such as New Zealand works against UK interests; and foreign direct investment into the UK, partly inspired by the desire to avoid EU trade barriers, which works in its favour.

Prof Minford calculates the net cost of the common agricultural policy by taking the cost to consumers of paying higher prices from food, subtracting the gain to UK farmers and then adding the loss in real income that results from the reduced consumption of food. At today's prices, he estimates the net cost of the common agricultural policy at £6.5bn for a "typical year", a calculation that assumes it raises the price of food some 40 per cent above world levels. This year, how-

ever, the surge in world prices has virtually eliminated this cost.

To the cost of the common agricultural policy, Prof Minford adds the net cost to the UK of its contributions to the EU budget, which is £3.4bn in 1995-96, though it was less in previous years and could be much less in the near future. The assumption that the UK's net contribution has been largely due to the cost of administering the common agricultural policy is not unreasonable. This produces an aggregate cost of £10bn, or 1 1/2 per cent of GDP.

On the other side of the ledger is trade diversion in the UK's favour. Prof Minford's argument is that prices of consumer durables - particularly cars - are about 30 per cent higher in the EU than they could be under fully free trade. This will allow a low-cost country like the UK to serve as a base for producers from outside the EU. The cost of this inducement to inward investment will then be borne by consumers in the rest of the EU.

According to Prof Minford, this process of production and trade diversion will be allowed to continue only so long as exports from the UK displace imports from outside the EU. If they begin to hit production elsewhere in the EU, there will be a backlash. Up to that point, however, the UK could benefit to the tune of £5bn a year. To the rest of the EU this will not be an additional cost, he argues, since it

will merely transfer to the UK excess returns previously enjoyed by exporters from elsewhere.

He concludes that the loss on agriculture more or less equals the gain on foreign direct investment, something nobody knows.

The EU is, however, far more than just a trade arrangement. Prof Minford ignores the single market altogether but focuses on two other aspects: economic and monetary union (Emu) and EU social policy. Both, he argues, could be a disaster for the UK if it were to sign up.

The decision to ignore the single market may make sense. The UK was already relatively liberal in many areas covered by this programme. The additional market access has not been that large. The single market may create great new opportunities. It does not appear to have done so yet.

As for the costs and benefits of monetary union, Prof Minford argues that joining Emu could destabilise the economy. Since the UK is far from fully integrated with its neighbours, that ought to be true if the comparison were with an optimal domestic policy. But the actual choice is between two imperfect policies. More important, monetary policy probably has only modest effects on the long-term performance of an economy.

That leaves another great imponderable - the social chapter of the Maastricht treaty. The difficulty here is that its consequences are unclear - it is merely a set of enabling clauses. Prof Minford asks what would happen if the worst policies of other member states were imposed throughout the EU. What, for example, would happen if the minimum wage were set at two-thirds of the average wage, the power of trade unions in the UK returned to 1980 levels, and social costs on employers raised to German levels. The result, he estimates, would be a reduction in UK output of up to 20 per cent and an increase of up to 3m in unemployment.

This must be a colossal exaggeration. But his concern is legitimate. The labour market policies of the rest of the EU have imposed enormous costs, raising unemployment to some 11 per cent. If the UK were a member of the social chapter, it could not be confident that it would not be forced to adopt similarly damaging policies.

What is the bottom line? The net economic impact of EU membership is probably not that large. Provided the UK can keep clear of the dotier aspects of EU labour-market policy, that should remain the case. Membership of the EU seems to be a price worth paying for a voice in the institution organising the future of the continent. But anyone who thinks membership of the EU guarantees prosperity is fooling himself. In or out, it is the efforts and the skills of the British people that will largely determine how well the UK economy performs.

* Brian Burkill, Mark Bainbridge and Philip Whymann, *There is an Alternative: Britain and its Relationship with the EU, Campaign for an Independent Britain*.

** Patrick Minford, *Britain and Europe: the Balance Sheet, European Business Review, New European and Centre for European Studies*.

OBSERVER

Israel's flimsy cabinet

Benjamin Netanyahu, Israel's prime minister-elect, is finding that assembling a cabinet is not as easy as he thought. Technical competence, he let it be known, was to be the overriding criterion for appointments. And he promptly offered the job of finance minister to Itzhak Mordechai, central bank governor and former university of Chicago professor.

But the proposal has caused such sharp divisions within his own party that Likud insiders were saying last night that the offer was being withdrawn. Instead, they suggest, it will be extended instead to Dan Meridor, one of the party's moderates.

It seems that Netanyahu reckoned without the four princes of Likud: Dan Meridor, Ariel Sharon, Ze'ev Benjamin Begin (son of Menachem) and Moshe Katsav have made clear that they cannot expect to do out the best jobs to people outside the party, and then to fire them off with such relative impunity as science, technology, tourism, and communications.

The business community, which might look on with some interest at the aborted attempt to appoint Mordechai, would nonetheless be happy with Meridor. It fears the alternative would be Sharon, and that his hardline nationalistic stance might

Russian roulette

Moscow is buzzing with rumours about what inducements the two leading presidential candidates are offering to the gruff-voiced Alexander Lebed, in order to win his support in next month's second round of voting.

Boris Yeltsin is reportedly dangling a newly created post - co-ordinating the so-called "power ministries", such as security and defence. The word is that Gennady Zyuganov has gone one better, suggesting Lebed could be prime minister.

More cynical observers, however, believe the decision may boil down to a simple actuarial calculation. Yeltsin is 51, Zyuganov is 51. Lebed, they suggest, does not want to hang around too long before having another crack at the top job - so he'll plump for Yeltsin.

Disunited nations

Reactions at Geneva's World Trade Organisation - this time, nothing to do with trade tariffs. The WTO's 430 employees are striking tomorrow in protest at the failure of member countries to de-link their pay and conditions from those of the United Nations.

WTO member states decided before the organisation was set up (in January 1995) that it would have no formal ties with the UN. But, oddly enough, they have repeatedly put off the de-linking decision.

WTO staffers suspect that cuts in the UN's budget could lead to cuts

Très bon-bon

A rare instance of sweetness and light in the Paris metro. The Paris Regional Transit Authority is dishing out chocolates to passengers. Some customer loyalty scheme, perhaps?

Not really. It's aimed at incorrigible smokers who cannot resist. Smoking is forbidden in the metro but many smokers ignore the no-smoking signs on platforms. So rather than bully the recidivists, the authority aims to persuade them with chocolates.

Next thing you know they'll be giving free slimming lessons to help travellers get through the gates...

100 years ago

Total Wreck of a Cape Liner Brest, France: Last night the Cape Liner "Drummond Castle", bound from Cape Town to London, struck a rock off the island of Mulluck, which lies between Ushant and the mainland. Three minutes after striking, the liner went down. The Maritime Prefecture has received a telegram, which has been communicated to the British Consul, stating that 250 persons including passengers and crew were on board. The latest telegram from Le Conquet, a small port on the Atlantic coast opposite the island of Molène, states that all on board perished except three. Six bodies have been washed ashore on the island of Ushant.

50 years ago

Burma War Losses The terms of reference for a Claims Commission to register and assess claims for property lost or damaged in Burma as a result of the war is announced by the Burma Office. The Commission will arrange for the registration and assessment of claims for damage to land (including buildings) and goods, and in certain cases, losses in Burma arising from war circumstances. It will also deal with claims arising under war damage legislation of the Government of Burma.

LEGAL DEFINITIONS
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FINANCIAL TIMES

Tuesday June 18 1996

CAROLINA BUILDERS
 LEADERS
WOLSELE

Group would co-ordinate economic policies

France wants G7-style club for single currency

By Peter Norman in Bonn

France yesterday proposed that the governments signing up to the European single currency should form a club to co-ordinate budgetary and economic policies that could function in a way similar to the working of the Group of Seven among the world's richest industrial nations.

Mr Jean Arthuis, French finance minister, said the third and final phase of European economic and monetary union, due to start on January 1 1999, required an "economic policy pole" to be made up of economics and finance ministers that would stand alongside the planned European central bank to ensure economic stability.

Mr Arthuis believes Emu countries would need to co-ordinate closely on issues such as implementing budgetary policy and setting budgetary targets, exchange rate policy, the analysis of the business cycle and economic policy. However, policy co-

ordination among the ministers, while equipped with a "high political authority and democratic legitimacy", need not be institutionalised.

"But to be effective it must be politically visible," the minister said. Citing the example of policy co-ordination among the leading industrialised nations, he added: "The G7 is after all not defined in any treaty and as an institution has no specific responsibility in the legal sense of the word. Yet no one can deny its capacity to act and its political visibility."

Mr Arthuis's suggestion adds a new element to the debate about policy making in an Emu which initially will be made up of only some of the European Union's 15 member states.

In his speech, prepared for delivery yesterday in Bonn, the French minister referred to the idea put forward last year by Mr Theo Waigel, German finance minister, for a "stability council" of Emu members; part of Mr Waigel's plan was for a European

"stability pact", limiting budget deficits. Mr Arthuis's ideas went further by encompassing other areas of policy.

They appeared to echo French concerns that the planned European central bank, which according to the statutes of the Maastricht Treaty is committed to price stability and has more independence than the Bundesbank, might prove too powerful an agent of policy when ranged against the finance ministries of the various Emu member states. Under the treaty, these would be operating at a national level.

Officials at the Bonn finance ministry said they would be "interested to know more" about the French ideas.

The Bundesbank yesterday declined to comment. In the past it has made clear that it would resist moves to limit the power of the European central bank but would welcome action among Emu member states to ensure that their financial and economic policies are not in conflict.

EU spells out beef ban deal

Continued from Page 1

imposed the ban last month on political grounds, as a result of consumer fears over BSE, rather than objective facts.

In today's framework document, the Commission will propose that the embargo should be lifted in stages, conditional on full deliberation by EU scientific and veterinary experts.

Mr Werner Hoyer, Germany's deputy foreign minister, said: "De-escalation is the name of the game. Obviously Mr Major will need a face-saving device at the Florence summit."

Mr Rifkind signalled yesterday that the UK was willing to lift its block on an agreement to set up Europe's new police agency pooling intelligence on drug traffickers and organised crime.

US and China

Continued from Page 1

time" allow US recording companies to enter into co-production ventures.

- US film studios could engage in co-production either in the making of motion pictures or TV dramas.
- China has closed 15 plate factories, including three "underground" plants, and would further strengthen enforcement procedures.
- Customs efforts to stop the export of pirate products would be enhanced and co-operation with US counterparts extended.
- Verification procedures to protect authentic products would become a feature of the enforcement effort.

Power struggle delays formation of Israeli cabinet

By David Gardner and Irene Prusher in Jerusalem

Mr Benjamin Netanyahu, the Israeli prime minister-elect, yesterday completed negotiations on the parliamentary majority needed to support his new right-wing government, but he failed to announce a cabinet because of a power struggle inside his Likud party.

While he mustered the required 61 of 120 seats, top ministerial portfolios such as finance and housing remained undecided as Mr Netanyahu, elected on a hawkish policy towards the Middle East peace process, sought to establish his authority.

Tense negotiations continued throughout the day as he appeared to be trying to diminish the influence of two leading Likud figures, principal among them Mr Ariel Sharon, the extreme rightwing former army commander whose mediation helped launch Mr Netanyahu as the sole candidate of the right.

By mid-afternoon, the new government's majority was secured with the entry of the Russian immigrant party led by Mr Natan Sharansky, a former Soviet dissident. But the full configuration of the cabinet is not expected until this afternoon.

The tussle for portfolios was fiercest over the housing ministry - which oversees settlement policy - and which at one stage yesterday appeared to have gone to Mr Sharon. In the last Likud government, he was the architect

of settlement expansion and a policy aimed at changing the demography of Jerusalem to create a permanent Jewish majority.

At one point, it appeared Mr Sharon might be left out of the government, with Mr Netanyahu keeping the housing ministry for himself but under the operational control of a religious fundamentalist party.

There was confusion, too, about who would get the finance ministry. Yesterday morning, the post looked certain to go to Mr Jacob Frankel, governor of the Bank of Israel, a move already being warmly welcomed by Israel's business community.

By last night, however, Likud officials said Mr Netanyahu might have to give the post to Mr Dan Meridor, a former justice minister and potential rival.

Earlier in the day, Mr Netanyahu published the agreed programme of the new government, stressing a commitment to radical economic reform and reiterating his uncompromising terms for peace with Israel's Arab neighbours.

The programme rules out a Palestinian state, pledges to expand Jewish settlements in the West Bank and retain complete Israeli sovereignty over occupied Arab east Jerusalem, as well as deny the right of return of over 4m Palestinian refugees.

Netanyahu unveils reforms to liberalise economy, Page 7
 Observer, Page 13
 Ireland's elusive peace, Page 8

Loyalists warn of resumed violence in N Ireland

By John Kampfer in London

Northern Ireland terrorism threatened last night to spiral after the largest Protestant paramilitary group warned it had put its operatives on full alert.

The prospect of a resumption of violence by loyalists, whose political representatives have been among the strongest voices of moderation in the unionist community, will alarm London and Dublin.

The Ulster Freedom Fighters said it had come to the "considered view" that the Irish Republican Army was planning to return to violence in the province for the first time since it declared a ceasefire in August 1994.

Since breaking the ceasefire in February, the IRA has focused its bombings entirely in Britain, culminating in Saturday's blast in Manchester, in which more than 200 people were injured.

Yesterday Mr Gerry Adams, president of the IRA's political wing Sinn Féin, said: "I want to make it clear that Sinn Féin will not be scapegoated. We were not responsible for the bomb explosion. In fact our peace strategy remains central to our party."

The Irish government meets today to re-examine its relationship to Sinn Féin, with ministers casting doubt on the ability or readiness of Mr Adams to stop the violence.

British ministers have made clear that a simple statement by the IRA restating a ceasefire will no longer suffice. Later this week the cabinet is expected to set hardened conditions for Sinn Féin's participation in the current all-party peace negotiations.

In its statement, the UFF said it had alerted its personnel to an "imminent" return to violence by the IRA in the province. While remaining "prepared for all eventualities", the UFF said it was fully committed to the peace process and called on the IRA, even at this late stage, to reinstate its ceasefire. Mr Gary McMichael, leader of the Ulster Democratic Party, which is linked to the UFF, said: "I think it would be wrong of me to be anything but honest - we are at a critical point in the peace process."

He added: "We must use all power and responsibility and all influence that we have to try to ensure that there is not a degeneration into full scale conflict."

Mr Billy Hutchinson of the Progressive Unionist Party, the second largest party taking part in the all-party talks, said: "Every time an IRA bomb goes off we are a step closer to a resumption of loyalist violence."

Loyalist terrorism in the early 1990s was at least as brutal as the IRA's and was seen as instrumental in persuading Sinn Féin that its ends would be best pursued by peaceful means.

THE LEX COLUMN

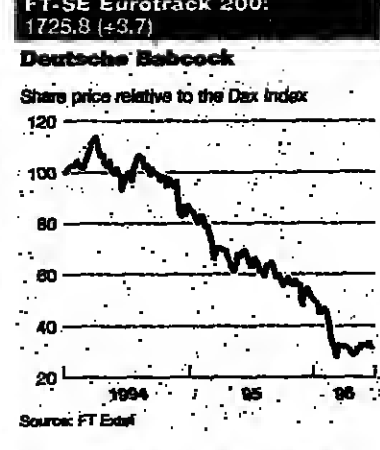
Copper troubles

Much remains murky in the saga surrounding Sumitomo Corporation's massive copper trading losses. But in the rush to allocate blame, it is important to distinguish between the two quite separate issues at stake.

The first, genuine worry is that the London Metal Exchange may have been slow to react to the activities of Mr Yasuo Hamanaka, Sumitomo's former chief copper trader. It is not, of course, the LME's concern whether or not Mr Hamanaka was losing money. The worry is that his losses may suggest he was trying to prop prices up artificially. This may or may not have been the case - but if it was, it was certainly the LME's job to stop him.

Nonetheless, whatever his motives, Mr Hamanaka does not seem to have been doing that well either. Even if his activities may have helped keep the price implausibly high, they still appear to have been disastrously unprofitable. The hedge funds, apparently betting that prices would fall, clearly did not believe Mr Hamanaka's strategy was sustainable.

The separate worry relates to controls within Sumitomo itself. This is nothing to do with the LME, or any other regulator; it is essentially the shareholders' problem. Investors have every right to complain if, as the company claims, it did not know that a key employee was running up such huge losses. But they should lay the blame at the doors of the management, not regulators. Although Sumitomo Corporation is loosely allied to Sumitomo Bank, it is not itself a bank; it could have gone to the wall without posing anything like the systemic risk of a banking collapse. So investors in Sumitomo Corporation - and trading houses like it - cannot expect to be mollified by regulators in the way banking investors are. They need to ask their own tough questions.



ing annual turnover of DM8bn and a cash last autumn of DM160m include DM3.5bn of customer advance.

Despite that, Deutsche Babcock has ambitiously taken on big contracts, did Bremer Vulkan and Klockner Humboldt-Dentz, both of which run into serious trouble earlier this year.

The group's poor financial position is at the heart of its problems, meaning the pace of internal restructuring is dangerously slow. Disposals, while Mr Schmiedeknecht has been promising for months, are difficult because the book losses would erode the capital base. And there are no funds to expand the core power engineering business, which has sound technology. Into Asia, meanwhile, the group seems to have put off potential predators like Siemens and construction group Pflieg Holzmann. But without a capital increase, the group's prospects look grim.

ket, where it is the market leader. It is still unclear just how bad things are. If an unconfirmed press report that Luftansa made an operating loss of DM200m in the first five months of this year proves correct, the situation is bleak. Given that the airline lost DM40m in the seasonally poor first quarter, that would imply a sharp deterioration in April and May when business normally picks up.

But even if the report proves exaggerated, as most analysts believe, Luftansa will have its work cut out to earn decent levels of profit. The company was yesterday stressing its determination to cut costs by DM1bn over five years. But competition is intensifying and rivals are cutting their costs too. British Airways, for example, which is roughly the same size as its German rival, is planning cuts of £1bn over three years. Luftansa will need to do more.

Hollywood

Hollywood is finally waking up to the fact that more does not mean better. The spurge of film-making in recent years has driven up the cost of attracting talent, so much so that some stars can now command \$20m a film. Promotional spending has also shot up, as studios compete for filmmakers' attention. But viewers have been unimpressed. The number of films made in the US last year rose by 9 per cent; the box office take went up only 1 per cent. An increasing number of films flop after a few weeks.

Disney's decision to leave its production of feature films, following Viacom's cutback at its Paramount studio, probably marks a reversal in the trend. There is, of course, a risk that rivals will take advantage of such moves by attempting to grab market share. But, given Wall Street's unhappiness with Hollywood's profitability, the prospects for a more generalised cutback look good.

The impact on profitability of an industry-wide retrenchment could be dramatic. Given that boosting film production did little to increase the box office take, cutting their number is unlikely to deter film-goers. So every \$70m or so not spent on making a film is probably \$70m saved. Moreover, in the longer term, if fewer films are made, their average cost could fall. There would be less need to shell out millions on marketing to be heard amid the din; stars might even find themselves competing for roles in their best films.

Additional Lex comment on British Steel, Page 20

Deutsche Babcock

Shareholders in Deutsche Babcock, the German boiler maker, must have steam coming out of their ears. After six years of fruitlessly trying to turn around one of the country's biggest engineering groups, Mr Heyo Schmiedeknecht, chairman, has warned of yet more restructuring costs and a DM300m operating loss this year.

Like many German companies, Deutsche Babcock is struggling with weak demand at home and an uncompetitive currency abroad. But the group has added to its problems by buying loss-makers such as textile machinery maker Moenuss and partly floating off profitable subsidiaries such as Flender, which manufactures gears. Worst of all, the group is heavily undercapitalised. Shareholders' funds of just DM340m are support-

Luftansa

In yesterday's profits warning, Luftansa whinged about competition from subsidised state-owned European rivals. The criticism has some merit, but it is not the full story. Luftansa is facing competition from private-sector airlines, notably British Airways, too. Over-capacity and price-cutting are, indeed, a feature of some airline markets. But Luftansa is hardly innocent; its capacity in the first four months of this year was 5 per cent higher than in the comparable period of last year. Meanwhile, its costs are not sufficiently low to respond to the price-cutting, so it has had to cede market share. Competition has been particularly fierce in the cargo mar-

FT WEATHER GUIDE

Europe today
 Scandinavia will be cloudy with rainy periods. A few breaks are possible in southern Sweden and Denmark but these will be interspersed with showers. Near gale force winds will occur along the Norwegian coast. The Benelux and the British Isles will be rather sunny in the south but cloud will drift in from the north bringing occasional showers to northern Scotland. France will be sunny and very warm. Spain and Portugal will have more cloud with several thunder showers inland. High pressure will continue to promote sunny and warm conditions over the Mediterranean and the Balkans, but thunder showers are expected over the southern Alps and in western Greece. Eastern Europe will be mostly sunny and warm but the Baltic republics will be cloudy with thunder showers.

Five-day forecast
 Scandinavia will remain mostly cloudy with rainy periods. The British Isles will become cooler with patches of rain. Thunder showers will occur along a frontal zone which will become stationary over France, Germany and north-west Russia. High pressure will continue to promote abundant sun across the Mediterranean. A disturbance with thunder will enter south-western Europe on Thursday.

TODAY'S TEMPERATURES

Abu Dhabi	sun	36	Belgrade	sun	27	Caracas	sun	23	Frankfurt	sun	27	Madrid	sun	33	Rangoon	sun	27
Accra	show	29	Berlin	sun	27	Casablanca	sun	21	Geneva	sun	25	Melbourne	sun	27	Seoul	sun	27
Algeria	sun	27	Bermuda	sun	28	Chicago	sun	21	Glasgow	cloudy	17	Manila	show	28	Singapore	sun	26
Amsterdam	sun	17	Bogota	sun	18	Cologne	sun	14	Hamburg	cloudy	15	Moscow	sun	16	Sydney	sun	26
Ancon	sun	28	Bombay	sun	35	Dallas	sun	32	Heilbrunn	sun	27	Nairobi	sun	22	Taipei	sun	26
Atlanta	sun	32	Buenos Aires	sun	25	Doha	sun	32	Hong Kong	sun	32	Osaka	sun	28	Tokyo	sun	25
B. Ave.	show	10	Burjassap	sun	26	Dubai	sun	37	Honolulu	cloudy	21	Paris	sun	23	Winnipeg	sun	25
B. Ham	sun	33	C. Hagen	show	15	Dublin	sun	19	Islamabad	sun	24	Perth	sun	23	Zurich	sun	27
Bangkok	show	34	Caro	sun	33	Dubrovnik	sun	27	Jakarta	sun	32	Prague	sun	22			
Barcelona	sun	25	Cape Town	sun	17	Edinburgh	sun	17	Jersey	sun	22						
									Kuwait	sun	46						
									L. Angeles	sun	24						
									Las Palmas	sun	26						
									Lima	cloudy	19						
									London	sun	23						
									Luxembourg	sun	24						
									Lyon	sun	30						
									Madera	sun	22						

Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

Our service starts long before take-off.

Lufthansa

All these securities have been sold. This announcement appears as a matter of record only.

New Issue / April 1996

U.S. \$200,000,000*

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FRANCE

New captain steers a steadier course

Now firmly at the helm, President Chirac is giving full backing to Alain Juppé, his prime minister, in his efforts to reduce deficits and strengthen the economy, writes David Buchan

After some months of drifting, tacking and navigating the squalls of last December's public sector strikes, France, under President Jacques Chirac, has regained a certain sense of direction.

There is progress on straightening out the country's public finances, on reforming France's welfare system and the free-spending habits of its patients, doctors, hospitals and drug companies, and on joining the rest of the industrialised world in partially privatising telecommunications and trimming its defence industry to post Cold War proportions.

Once it sorts out its public finances, including the awkward system that places 85 per cent of all welfare costs on payroll changes and so discourages employers from expanding their workforces, France can look to its private sector to herald a brighter future. Low inflation, good infrastructure and fairly high reinvestment of corporate earnings in new technology have helped keep larger French companies competitive, reflected in steady trade surpluses with the rest of the world.

With unemployment at 11.9 per cent, there is still no feel-good factor. But prime minister Alain Juppé has promised a five-year tax-reduction plan from 1997 in order to encourage consumers to spend more now and to give his centre-right majority a more popular platform on which to fight the 1998 parliamentary, regional and cantonal elections.

Of course, in terms of meeting the Maastricht criterion for getting France's overall deficit down to 3 per cent in 1997 and thereby qualify for economic and monetary union (Emu), the tax-cutting pledge was highly premature.

France's Social Accounts Commission has since estimated this year's social security deficit as three times more than the FF17bn that Mr Juppé hoped to achieve through his welfare reforms. The Commission warns that the welfare system will probably stay in the red next year, so France seems to have little chance of achieving its 3 per cent target in 1997.

Yet far from falling on their swords, French ministers and officials seem somewhat laid back, reflecting their country's special position in the Emu project.

They know that even Germany will have problems in satisfying the Maastricht criteria next year, and believe that as long as France's performance is very close to that of Germany's, President Chirac and Chancellor Helmut Kohl (the German Bundestag permitting) might be able to hedge the criteria for allowing both countries to enter Emu. In the last resort, France is virtually the only country other than Germany which is confident that Emu cannot, in practice, start without it.

German ministers have repeatedly said that a monetary union without France would be too small to make economic or political sense. But the French government does not want to state this publicly for fear of lessening the pressure for reform.

The French find it notoriously difficult to pursue steady, progressive reform. They see themselves as an innately conservative people, who can only achieve reform in sporadic, revolutionary bursts. But, apart from a rooted attachment to their cuisine, their little shops, and the contrasting splendours of Paris and rural France, the French

are really just as modern-minded as other Europeans.

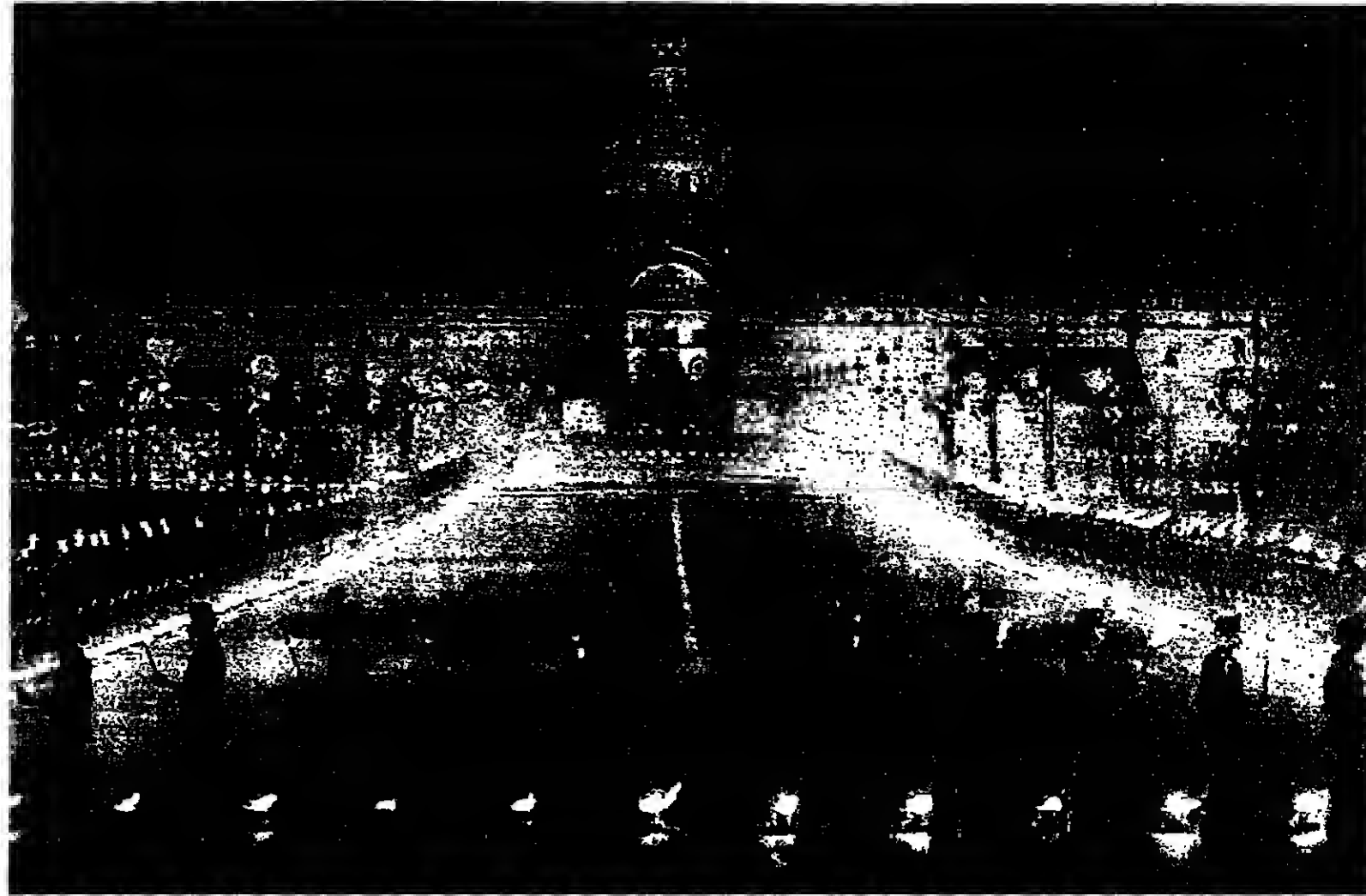
What they do have, under the 1958 Fifth Republic, is a set of political institutions that make reforms difficult. On most economic and social problems, presidents of the Republic tend to pass the buck to intrinsically weak prime ministers who essentially depend on their president's goodwill rather than the support of parliament.

Governments are rarely elected on precise programmes, because political inspiration is left to presidents, not political parties which, like parliament itself, are weak. Into this relative vacuum, unions or other lobby groups, which may have small but vocal memberships, can easily step in to play a determining role.

In these circumstances, the vague and contradictory nature of Mr Chirac's election platform was hardly surprising. Luckily, Mr Chirac - gaullist though he is - has personally papered over some of the Fifth Republic's institutional cracks. He is directly involving himself in reform of the armed forces and the armaments industry; indeed some people might like him also to take the country's overstated and unprofitable banking sector in hand.

After taking six months to clear his throat, the president is now giving full support to the efforts of Mr Juppé to reduce budget and social security deficits. Now that it is clear that the prime minister is no longer hurting his own rating in the polls, Mr Chirac may well maintain Mr Juppé at his post until shortly before, or just after, the 1998 elections.

He made an impulsive start in defence and foreign policy. He authorised nuclear weapons tests, and reacted with hurt pride and diplomatic snubs to



Evoking the spirit of de Gaulle, soldiers form a tricolour Cross of Lorraine, symbol of the Free French forces, during last November's commemoration of France's anti-Nazi war leader

these European countries who dared to criticise them. His EU critics were, Italy apart, the smaller members, and there was an element of huffing in his reaction. But he has since hurried the hatchet with these EU partners.

His recent impulses seem better directed, notably in his speedy involvement of France in the search for a ceasefire in south Lebanon, thereby giving it at least a new walk-on part in Middle East diplomacy. In seeking better relations with President Yeltsin of Russia and in hosting Prime Minister Li Peng of China in Paris, Mr Chirac has adopted a more pragmatic line about human rights abuses in those countries.

He also shows greater affinity with the US than any of his predecessors at the Elysée Palace. As a young student, Mr Chirac worked at a Howard Johnson diner and, on his presidential visit to the US last

year, he was prepared to face Larry King on a live TV show. France still sees itself in direct competition with the US in such areas as aircraft manufacture, agriculture, even film making. But the French public, which has never been as anti-American as some French leaders have assumed, has largely gone along with Mr Chirac's rapprochement with Nato.

The exceptions were a few left wingers who criticised France's return to full participation in Nato meetings after an absence of 30 years.

French officials pay warm tribute to Britain's help in smoothing the way for France's return to Nato and, if it were not for Britain's beef crisis, Mr Chirac's successful state visit to the UK last month would have ended on an even higher note. As it is, he has played a conciliatory role in the beef crisis, which has earned him some criticism

from consumers and farmers at home.

But Mr Chirac has devoted most effort to developing the key relationship with Germany. Within days of arriving at the Elysée last May, he rushed off to see Chancellor Kohl in Strasbourg. His public conversion last October to deficit reductions came after a trip to Bonn. On another trip there last month he and Mr Kohl agreed to step up their contacts by meeting at least once every six weeks or so.

The two men started their Franco-German summit earlier this month in Dijon and then, unexpectedly, continued the next day in Paris. Much of this recent Franco-German "va et vient" is aimed at preventing France's defence reforms from diluting its military co-operation with Germany. However, new plans for closer defence ties, made easier by Paris rejoining Nato, are scheduled for the end of this

year. The only negative reactions to this drive for ever-closer relations with Germany have come from the left and right fringes of French politics.

Mr Jean-Pierre Chevènement, Mitterrand's former defence minister who left the Socialist party after he refused to order French troops into the Gulf war, has written a new book entitled "France, Germany, Let's Speak Plainly". In it he warns against France becoming a "feudal" vassal to Germany, and claims the balance of power between them is too lopsided for the relationship to remain harmonious.

Few French think of themselves as vassals to anyone. But many would agree that lopsided relationships can be uncomfortable, and say that this is one more reason why France needs to carry out reforms - at least as rapidly as Germany.

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Production editor: Maurice Samuelson

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key events

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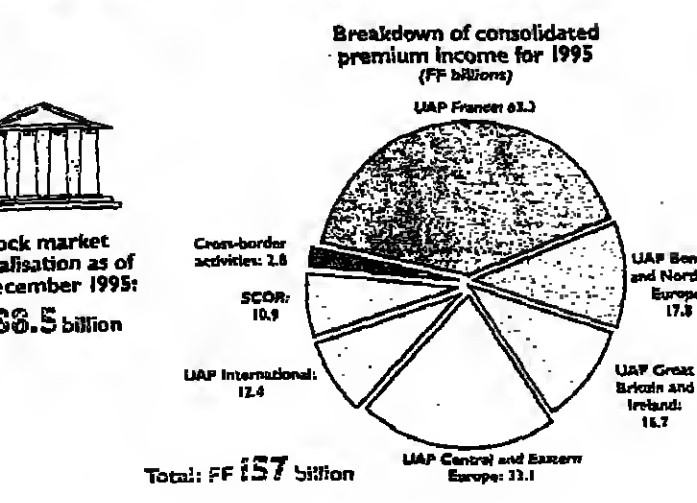
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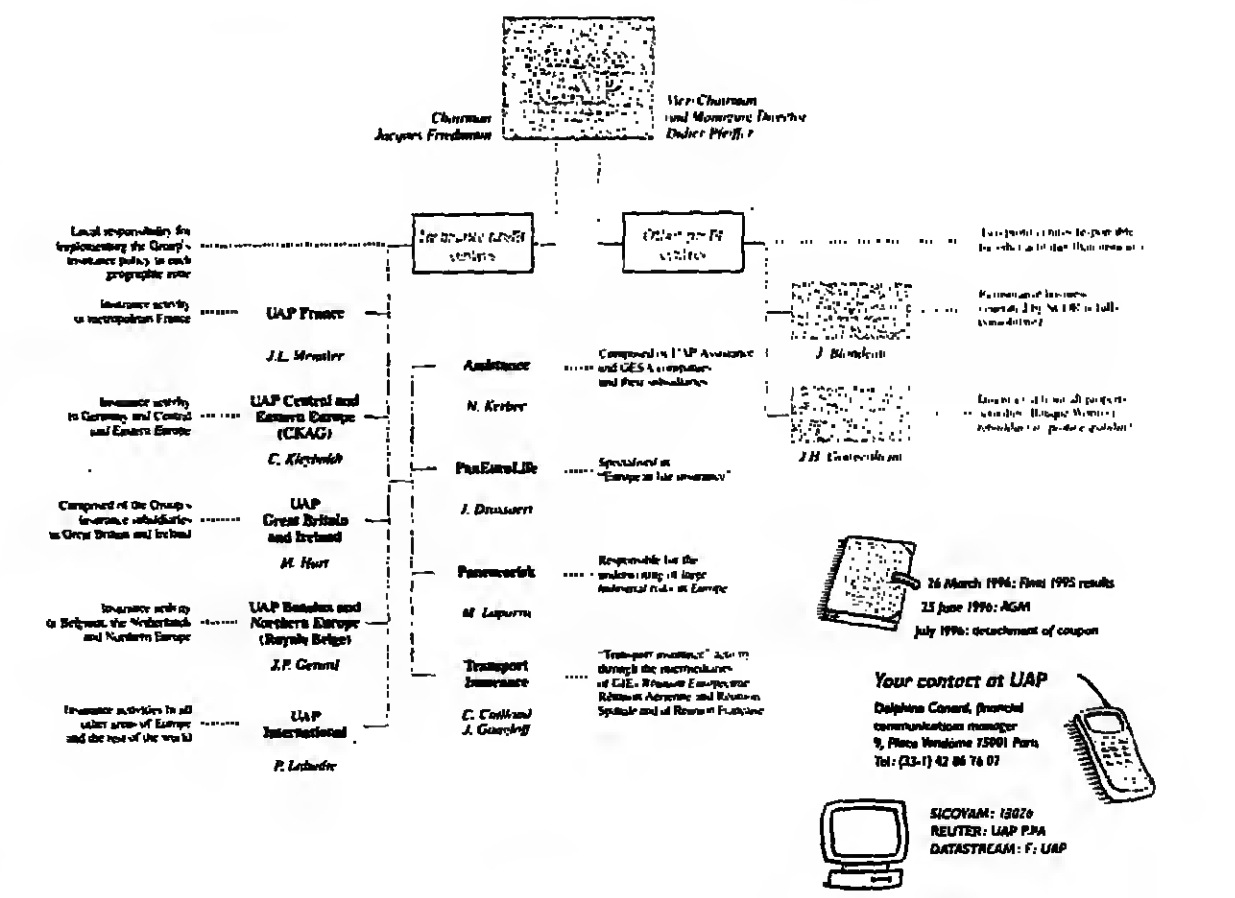
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FRANCE

POLITICS: by David Buchan

Three-legged race team

President Chirac and prime minister Juppé may develop an unusually long partnership

Under the Fifth Republic, the president has long been the dominant figure. But a decade ago, when Jacques Chirac was elected, the prime minister's role was reduced to a mere shadow.

But, after a shaky start during the December strikes, Mr Chirac and Mr Juppé have developed a relationship that is more harmonious than any since the 1950s. President Charles de Gaulle and prime minister Georges Pompidou were a similar team.

The first stable government was designed to trim the top-heavy government of more than 50 ministers. When Mr Chirac had appointed to replace many of his presidential election advisers in November, Mr Juppé was the smaller, less visible team which also included some members of the original cabinet of Mr Edouard Balladur.

Mr Chirac had followed up the May 1995 presidential election by calling a snap parliamentary election in June. The government was a coalition of the RPR, the UDF and the Centre. Mr Juppé's coalition was a loose electoral alliance of disparate parties, a more unitary structure.

his change in his UDF coalition partner, and to counter the modest resurgence of the opposition Socialist party.

The likelihood of Mr Balladur's return is slim, because of his poor public and hard feelings on both sides. It is just possible that a ministerial call might come for Mr Nicolas Sarkozy, who was Mr Balladur's aide in a 1993 advisory role. He is still a heavyweight in the RPR gaulist party, though his reputation for shrewdness suffered in his last year as Mr Balladur's interior minister and presidential backer.

But his hardline approach on law and order, combined with a populism delivered in an inimitable Marseille twang, has always been rated as one of the traditional right's best weapons against Mr Jean-Marie Le Pen. The latter's far-right National Front won three southern cities in last June's municipal elections, and is still favoured by opinion polls. Mr Pasqua's experience and links with Corsica might also seem useful if lawlessness on the island were to get worse.

If Mr Chirac had called parliamentary elections in the

immediate wake of his Elysée victory, his relatively few allies within the UDF (which instead of fielding its own presidential candidate in 1995 opted very largely for Mr Balladur) might well have won control of the centre-right federation. As it turned out, Mr Alain Madelin, a leading Chirac backer who was briefly finance minister until a personality clash with the prime minister ousted him from the first Juppé government, lost his bid in March to replace Mr Valéry Giscard d'Estaing as head of the UDF.

In managing his coalition, Mr Juppé who is himself president of the RPR gaulists, must now treat with Mr François Léotard who beat Mr Madelin for the UDF presidency. It was not much of a contest, because Mr Léotard was already head of the Republican party, a major constituent of the UDF, and had the backing of Mr François Bayrou, the education minister who is also leader of Force Démocrate, another big component of the federation.

Mr Léotard presents a potential problem for Mr Juppé. The UDF president has pledged full support for the government, but he was a strong erstwhile Balladurian and has criticised aspects of defence and tax policy from the backbenches. He is being pushed - by Mr Madelin as much as anyone else - into trying to give the UDF, hitherto a loose electoral alliance of disparate parties, a more unitary structure.

Ultimately, it could therefore rival the RPR, particularly if it were also to exploit its European credentials. Unlike the RPR gaulists who find it ideologically hard to link up with other European parties, the strongly pro-European UDF has the right mix of conservative economic policies and centrist social concerns to fit in with European Christian Democrats, and particularly Chancellor Kohl's CDU. Indeed, Mr Léotard now proposes regular UDF meetings with the CDU.

There have been many times in the recent past when the Socialists, too, have been less a party than a tenuous federation of back-biting barons, each with their *caussez* based less on ideology than personality. This has changed. The decision to hold an open primary election to select their



In the shadow of the founder of the Fifth Republic, President Chirac walks past a portrait of President Charles de Gaulle

There have been many times in the recent past when the Socialists, too, have been less a party than a tenuous federation of back-biting barons, each with their *caussez* based less on ideology than personality. This has changed. The decision to hold an open primary election to select their

National Assembly	
Party	Seats
RPR gaulists	259
UDF centre-right	206
Socialists	82
Communists	22
Independents*	27
TOTAL	577

*mostly on the left

1996 presidential candidate, the very respectable 48 per cent won by Mr Lionel Jospin in that election, the grace with which Mr Henri Emmanuelli subsequently ceded the party leadership to Mr Jospin, perhaps even the demise of Fran-

çois Mitterrand with his divide-and-rule tactics, have all promoted more unity in the party.

Mr Jospin is consolidating his leadership, though it remains - even in France's semi-parliamentary system - a handicap for him to be currently without a seat in the National Assembly; during key parliamentary debates, he has to write articles in the press to make his voice heard. Mr Laurent Fabius, one of Mr Jospin's old party rivals, acts as the party's parliamentary leader, but that division of roles does not seem to be creating the tension one would have once imagined.

Influenced by Mr Jacques Delors, the former European Commission president who like his daughter, Mrs Martine Aubry, sits on the party's national executive, the Socialists have stayed more or less true to the Maastricht treaty they signed for France.

is that we don't make a religion of the Maastricht criteria," says Mr François Hollande, the party spokesman.

"We don't take them too literally, or believe that monetary union should be delayed if they are not met to the last decimal point."

The Socialists do not quarrel with the goal of reducing France's public deficits, but they dispute Mr Juppé's means of achieving it. They fault the prime minister for having over-taxed France in his first year and now threatening savage cuts in education and housing, while risking a clash with the unions over cutting civil service numbers which would save a mere FF1.2bn in the short term.

But Mr Hollande is very cautious about forecasting victory in 1998 on the basis of recent by-election results. Thanks to their enormous gains in 1993, the RPR-UDF have many MPs able to wield influence and patronage, while Mr Chirac is also sure to throw himself into the 1998 contest - to ensure he does not spend his last four years in the Elysée cotabating with the left.

SOCIAL SECURITY: by David Buchan

Public's moment of truth

Painful cuts are in the offing to reduce the huge cost of pensions, health and welfare

The political spotlight has increasingly focused on France's social security system for two reasons.

First, French welfare is still 50 per cent funded by payroll charges rather than taxes, and the high level of these charges creates a considerable incentive for employers to hire on the continent's jobless.

Second, social security accounts for a large chunk of France's overall public debts which must be reduced to, or very near, 0 per cent of

national output if the country is to qualify for European monetary union. Indeed it is probable that, if the 1997 deficit is not eliminated in 1997, France will fail to qualify.

The Juppé plan of last November was, in fact, more ambitious. It aimed at reducing the deficit of the "general regime" (composed of pensions, family allowances and health insurance) from an estimated FF80bn for 1995 to FF17bn this year and at producing a FF12bn surplus in 1997.

Six months later, the position looks much worse. The figure for 1994, when it is finally settled, will be around FF20bn, and this year's deficit for the general regime is now being estimated at around FF10bn and a possible

break-even forecast for 1997. The only part of the welfare system now in surplus is the Unédic unemployment scheme, run separately by employers and unions who, in a rare moment of courage and self-restraint in 1993, raised contributions and cut benefits.

Curiously, it was not really last December's strikes that knocked the government off course. When Mr Juppé abandoned his attempt to extend a 1993 pension reform from the private to the public sector, it was a serious blow to his pride, but not to his arithmetic. Putting civil servants on the same pension footing as the rest of France would have produced only minor initial savings to the government.

The main problem is lower welfare receipts from payroll

charges, due to the downward dip in the economy in late 1995 and the subsequent slight rise in unemployment. Further changes in welfare funding are planned. The Balladur government started by shifting a portion of family allowance charges paid by employers on to the state budget and general taxation.

The Juppé government plans the creation of a single, universal health insurance charge which will be levied on a wider revenue base than just salaries. This will spread the burden more widely, and eventually make welfare funding less sensitive to changes in economic activity as well as less of a disincentive to employment.

But the government claims that 80 per cent of its reforms on welfare spending are intact. Family allowances have been largely frozen this year, though the government is still dithering about whether to relate them more to individual families' incomes or to tax them.

The main changes relate to the health sector, one of the world's most extravagant because it combines US-style freedom of choice for patients with a high European level of state reimbursement of their expenses. In 1994 health insurance accounted for FF32bn of the general regime's FF85bn deficit.

Political control. The French social security system



1996 on, to cut out paper work for the health insurance agencies (which handle 1.1m prescriptions a year) and to keep tabs on doctors who over-prescribe.

Drugs. The pharmaceutical industry feels victimised by the government's demand that it make a special FF2.5bn "contribution" this year to closing the health insurance deficit. It points out that this amounts to a FF30,000 tax for every job in the industry, and that it already has to pay a special tax on its promotion activities. The government is unwarranted, blaming the drug companies for last year's surge in drug reimbursement costs and for taking no interest in cheaper generic medicines that could help solve the problem. While generics account for 25-30 per cent of the drug market in the UK and Germany, they represent only 3 per cent in France.

For his part, Mr Bernard Mesuré, president of the SNIP pharmaceutical industry association, concedes that health spending will exceed the government guideline of 2.1 per cent this year, particularly because of estimated 7-8 per cent increases in drug prices and doctors' prescriptions. But he is against fixed government controls on what has become the largest pharmaceutical industry in Europe.

ance - campaigned against what it called "a state takeover", and thus the government decided to let the "social partners" keep much of their co-management role; but it has restored to employers, regarded as more penny-pinching, their party with unions and will nominate key managers in all the new health institutions it has created.

Hospitals. France has an average of 1,250 hospital beds per 1,000 inhabitants, compared with the European average of 800. This translates into some 60,000 surplus beds, partly because with more effective care patients can nowadays be sent home earlier. In future, hospitals will be required to plan and rationalise their business under three to five year contracts with new regional hospital agencies. A new National Health Evaluation and Accreditation Agency is to be set up to issue good practice guidelines.

Doctors. France is not so exceptional, among European countries, in having 180,000 doctors relative to its population. But it has too few in its hospitals (where some 9,000 foreign doctors work), and too many (108,000 in all) in independent practice. In the latter category, it has a disproportionately large number of specialists - 48,000 - compared with 60,000 generalists.

At times, it seems that the only rivalry among this host of doctors is in their eagerness to prescribe almost any treatment or drug their patients want. The government hopes to steer more doctors into "non-prescribing" jobs, such as running preventive health clinics in companies or schools. But it also plans to discourage over-prescription by freezing fee increases and setting financial penalties for doctors who are "too free with their pens".

Doctors, particularly special-

ists who are more opposed to the Juppé reforms than the generalists, have so far paid scant attention to government-set spending limits.

The first three months of this year showed no sign of the government meeting its 1996 target of containing the rise in health insurance costs to 2.1 per cent (after 4.7 per cent in 1995). But the government

claims that, with a 0.3 per cent decline in April, the tide may be turning.

The government also plans to re-launch the scheme of a "carnet médical", or medical record card, so far only distributed to some 45,000 old people. The aim is not just to help doctors and patients. The government also wants to use the card, to be computerised from

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FT Surveys

■ **TAXATION:** by Andrew Jack

Wise men offer 55 pages of advice

Proposals to reform the rickety tax system abound, but action is constantly deferred.

The French tax system suffers from an unusual problem. Everyone talks about reforming it, and most people have ideas about what is wrong with it, but no one seems brave enough to change it.

In early June, the latest indictment of the current state of affairs was submitted to the government and released to the public. The 55-page report of the "five wise men" headed by Mr Dominique de la Martinière, a former head of the tax service, was a compelling critique of the current situation.

It called among other things for an abolition of many of the current complex tax deductions, a simplification and reduction in the number of income tax rates, and a wide-ranging reform of the charges on companies by both national and local government.

It might at first seem strange

that such a powerful analysis could be drawn together so quickly. After all, it was only in early April that Mr Alain Juppé, the prime minister, asked them to set to work, giving them less than two months to come up with their findings.

But the group's conclusions were strangely familiar to most tax experts. They put forward many proposals which had been made before - most recently last year by another gathering of experts which included Mr Bernard Ducaumin and Mr Robert Baconnier, who were both members of the successor committee.

The fact is that tax reform is an intensely political subject. This problem with the Ducaumin report was that it was commissioned by Mr Juppé's predecessor and increasingly vocal political rival, the fellow Gaullist presidential contender Mr Edouard Balladur.

Mr Juppé decided on the day before the de la Martinière report was published to announce wide-ranging tax reforms over five years, starting from the beginning of 1997. He provided little sub-

stantive detail but had a chance to pledge tax reductions in an effort to stave off Mr Balladur's increasingly critical calls for rapid cuts.

However, Mr Juppé also left himself with considerable room for manoeuvre, stressing that he would in no way be bound by the conclusions of this latest group of experts. Like a number of other pledges including a long-standing one to introduce pension funds, observers are holding fire until whenever the reforms might finally appear.

There has been a long and strong tradition in France of adding new "temporary taxes" - such as last year's 3 per cent-

age point corporation tax rise - which become permanent, and of adding new deductions while not taking away the existing concessions. All that combined with a tendency towards evasion and avoidance.

The maze of deductions has also become increasingly complex to manage. Early this year, ministers announced new measures designed to boost economic growth. High up

their list of concessions were new tax deductions for those spending on consumer goods. Over the next few months, they will launch a series of "free zones" in troubled urban areas. Reduced charges for employers are on the agenda.

As de la Martinière's report bluntly puts it, the French system "seems to have lost its elasticity", with income from taxes not rising in line with revenues and economic growth, and with a jump in demands for deductions. "It is as though ... discouraged by the constraints placed on them ... (taxpayers) have abandoned all strategy of conquest in favour of survival tactics."

During 1996, the country is set to break all records, with existing projects suggesting that the total rate of tax contributions and social payments will reach 45 per cent of gross domestic product.

By international standards, France has very high rates of tax. Yet the system is also extremely skewed. Income taxes are paid by just half of all households, compared with some 94 per cent in the UK, for

example, and contribute only a small proportion to total government revenues.

As a result, it is no surprise that the need for fiscal rigour and the perception of the French as "taxpayers" is more abstract than in many other countries. Many of those on low incomes pay no tax, while even those with substantial revenues often are exempt after claiming a wide range of deductions.

Mr Jacques Friedman, head of the insurance group Unio des Assurances de Paris and a member of the elite French finance inspector corps, became the latest business leader to associate himself with calls for reform, saying on French TV in early June that one of the key modifications to the tax system should be to reduce the highest income tax rate.

His arguments are shared by the de la Martinière committee, which called for the upper rate to be cut from 56.5 per cent to 40 per cent in line with other European financial centres. It also suggested a reduction to six tax bands, and

removal of a large number of existing exemptions.

But income tax is only part of the problem. A high proportion of French government revenues come from levies on companies, and notably on the size of the payroll. It is a situation which acts as a disincentive for businesses to hire staff and is paradoxical particularly given the French government's stated pledge to focus on reducing the current very high levels of unemployment.

Separately, the "taxe professionnelle" - levied by a range of different tiers of local government - is calculated on the basis of both payroll charges and capital investment - another formula which acts as a disincentive for the creation and expansion of companies.

As for Mr de la Martinière, he has little illusions about how far his conclusions will be followed. He joked on French radio shortly after his report was published that he expected his recommendations to be "torn to pieces" by lobby groups and politicians in the coming months, and ultimately "thrown to the dogs".



Shopping in St. Germain: taxpayers put survival first. Picture: Tony Anderson

■ **EDUCATION:** by Andrew Jack

Power and poverty of the elite

Unemployment dominates a fierce national debate on the direction of state education

The beauty of the French education system is its ability to turn out an elite of extremely impressive and well trained minds. The curse is the dominance of this small group at the expense of the rest, in a legacy that can last for life.

Encounter a top French business executive or civil servant, and compared with many of their counterparts in other countries, their intellectual prowess, analytical rigour and breadth of knowledge - whether on current affairs, philosophy or poetry - is rarely in doubt.

More open to question is whether it is the legacy of their educational background

and performance and the continued tight links with their peers rather than their ability to do the job in hand which explains their contemporary position.

Look at the technological and scientific advances of French companies and laboratories - in aviation, telecoms, electronics, defence work or drugs research - and their prowess and achievements are undeniable.

But consider the rigidities elsewhere in the workforce, and the concerns of employers about hiring those who have done less well at school and dropped out before completing any form of higher education, and the story is one of which to be rather less proud.

France is currently undergoing the latest in a regular round of debates and discussion about educational reform - notably at the post-school and university level - against

a backdrop more ominous than ever.

Despite President Jacques Chirac's campaign pledges to reduce the "social fracture" in the country, the burden of unemployment - to which the educational debate is tightly linked - remains a heavy weight on the government's shoulders.

The government has made great play of the priority, including references to the employment effects of a number of its initiatives unveiled over the last few months - including aid for small businesses and shopkeepers, and "zones franches" or deprived urban areas which will offer lower social charges and taxes for companies which locate, remain or hire staff in them.

However, such measures appear marginal at a time of economic downturn, privatisation of large state employers and restructuring in the public

and private sectors alike.

The most recent unemployment figures for April showed a modest monthly decline of 0.5 per cent - or a rise of 0.3 per cent under the previous method of calculation including people classified as jobless but who worked for more than 78 hours during the month. But the absolute statistics remain high: 3m or 3.3m respectively.

The burden of such gloomy job prospects helped explain the degree of support across France for the strikes at the end of last year. It has been one of the driving themes in discussions between the unions, government and employers since then, including the social summit in December at the conclusion of the industrial action.

Among the most pressing concerns for the government is youth unemployment - which led to a "youth summit" con-

vened at the Matignon, the prime minister's office, in mid-June, one month after his pledge that no young person should leave school without some assistance towards training, employment or career advice.

The other topic most widely discussed is to modify working hours in an effort to increase employment - including longer holidays, earlier retirement and most notably the idea of reducing the length of the working week to 35 or even 32 hours.

Yet so far, little concrete has emerged at the national level, and initial plans to make public a formal agreement in June are slipping.

Unilateral measures launched at the Rhône-Alpes regional council by its president, the defence minister Charles Millon, have so far had little positive effect.

The employers' federation is

attempting to steer clear of any new legislation, stressing the importance of flexibility in agreements and the additional costs imposed in reducing the working week.

Nevertheless, there have been some piecemeal developments. Even the banking sector, which publicly complains about the theoretical labour restrictions imposed in a 1987 decree by the socialist Popular Front government, has found ways to negotiate local accords towards more flexible working and reduced hours.

In the field of education, the government's record is more patchy. Mr François Bayron, the education minister, has come under growing criticism in the last few months for apparent inactivity, or for issuing new plans which strongly resemble others already proposed in the past.

President Chirac's own campaign election pledge last year for a national referendum on education reform appears to have been quietly dropped,

and his minister's priorities were temporarily side-tracked by huge discolours in the Spring about the growing outbreak of violence in schools directed at teachers.

Mr Bayron's most important current challenge remains a reform of the university system, including attempts to redesign the courses, change

Baccalaureat is 'world's most monstrous' exam system

the financing arrangements and reduce the very high drop-out rates.

But he is struggling against a legacy of hugely over-crowded universities, and a fear that has plagued all education ministers in the recent past: the word "selection", taking away the automatic right of entry into higher education of anyone who has passed the

baccalaureat, the school-leaving exam.

France has a long history of talking to the streets to defeat unpopular policies, and no group does so more frequently or with greater effect than university students, who have forced the resignation of previous ministers and abandonment of numerous proposals for reform in the last few years.

If Mr Bayron does manage to bring about meaningful reform, that still leaves him with the dossier of modifying the "bac" itself.

"No country has invented an exam so monstrous," as the French magazine *Le Point* put it recently.

As for the most elite and highly-selective part of France's higher education system, little is likely to change. "The grandes écoles are untouchable," says one senior political adviser to the government.

"They are the only part of the educational system that actually works."

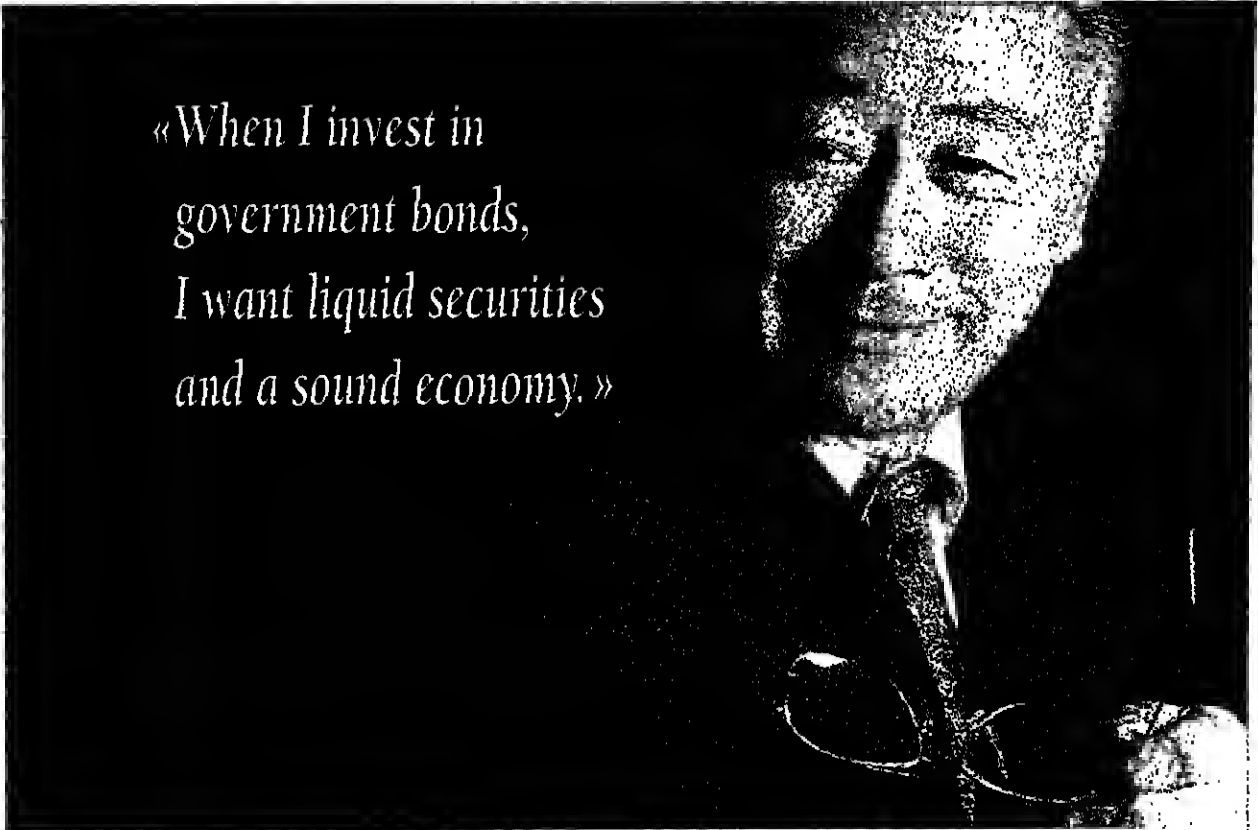


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MINISTÈRE DE L'ÉCONOMIE ET DES FINANCES

4 FRANCE

INVESTMENT: by Andrew Jack

Climate becomes more inviting

France is belatedly competing with the UK for inward investment into the European Union

Nothing is ever straightforward in the complex marriage of politics and business in France. It was Mr Edouard Balladur, the centre-right Gaullist prime minister, who as minister of economics in 1986 introduced the system of domestic "core investors" designed to protect privatised companies from foreign takeovers.

Yet it was the socialist administration - after first nationalising the country's banking and insurance system and many of its leading industrial groups in 1982 - which went on to liberalise France's financial markets and do much to attract foreign money.

It was also Pierre Bérégovoy, the former socialist economics minister and prime minister, who in 1992 created the Invest in France network designed to attract businesses from other countries and give them better help on arrival.

"The image that France is closed to foreign investment is really something from the past," says Mr Raymond-Max Aobert, minister with responsibility for the network and for local and regional development. "Our reception of companies is now among the most flexible that exists."

Some ambivalence still remains. Mr Michel Pébereau, chairman of Banque Nationale de Paris, warned recently of the spectre of a non-French bank taking over one of the country's domestic financial institutions unless they started to improve their own performance and strength.

It was only last year that Mr Alain Madelin, then economics minister, announced the abolition of the legal requirement for all foreign takeovers to be registered with and formally approved by the government. That condition now only remains for the defence sector and businesses involved in other areas of "national interest".

Mr Jean-Daniel Tordjman, ambassador at large, whose own high-profile job created under Bérégovoy was designed to create a focal point for foreign investors, stresses how much things are changing. He highlights the fact that President Jacques Chirac has already made two speeches designed to encourage foreign investment, one in Chicago and one in Singapore. The late President Mitterrand never mentioned the subject.

Mr Jean Arthuis, the current economics and finance minister, has also made the attraction of foreign investment an important priority. He

unveiled a series of measures in April including a simplification of the administrative process for receiving work permits for employees of foreign groups coming to France; less red tape for those wanting to open shops; and the appointment of a senior tax officer to work exclusively for foreign businesses.

Other initiatives also demonstrate the shifting attitude towards foreign investors. The two most recent privatisations - of Pechiney and Assurances Générales de France - have been carried out without any "core investor" or formal agreement. Both are theoretically vulnerable to foreign takeover.

Mr Tordjman argues that French companies can learn a great deal from foreign investors - and highlights the false fears about the Japanese in the US, who have helped introduce many management methods to raise productivity.

For Mr Aobert, that is the most important reason for the change in attitude, given France's current high rate of unemployment and the government's focus on its reduction. "We estimate that foreign investment last year created or preserved 20,000 jobs. Over the last few years, it has done this for an annual average of 17,000, an objective we want to double in the next five years." He stresses that France's attractions include the quality of labour, its central geographical position in Europe, and its reputation for research and training - as well as what he calls "a certain quality of life".

Others talk about a new ingredient which could be set to become an increasingly important advantage, notably over the UK: France's commitment to joining the single European currency.

Certainly France has scored some notably recent successes in the intensifying battle to lure foreign investors. Against stiff competition notably from the UK, it won the fight for Motorola's European research centre. Even more recently this year, Federal Express chose it for its main European distribution centre.

Figures published by the Bank of France at the start of June showed that the volume of direct foreign investment in the country stood at FF60.7bn last year, against FF60.8bn in 1994, with the largest proportion coming from the US and the UK.

Nevertheless, there is considerable debate about the way in which the French statistics and those from other countries are compiled, which makes any international comparisons fraught with difficulties. Should takeovers of existing domestic groups be counted as the French do? Or profits that are reinvested, as in the UK? Equally, while France has

scored impressive victories in attracting big names which attract the attention of top-level "facilitators" like Mr Tordjman to ease the way, there are questions about how far the same facilities are available to smaller companies, and how much difference its latest measures will really make.

At the second annual conference of Invest in France - held just outside Paris at Euro Disney, another example of the country's ability to attract high profile investment projects - one concern was the difficulty of the French language for foreigners, notably from Asian countries. Another was the high social costs and relatively inflexible employment legislation.

But the most persistent criticism by both investors and local elected officials was of French bureaucracy. "Bureaucracy kills our country," admits Mr Tordjman. "The speed of administrative decisions needs to be increased."

He says, "And there are too many, and complex, taxes." The administrative structure of the organisations designed to help foreign investors highlights the problem: Mr Tordjman is paid by the French foreign service, with his expenses and office in the ministry of finance and economics. The Invest in France network is responsible to Datar, the state regional development agency with a traditional emphasis aiding the poorest regions, rather than businesses seeking the best possible location for their needs.

Mr Tordjman says simply: "A few years ago, the British did not take us seriously. That has now changed."

FOREIGN TRADE: by David Owen

Industry is the export hero

Manufacturing has been the backbone of France's \$20bn trade surplus success

Ask Parisians how France can have a \$20bn trade surplus when tourists and French manufacturers alike appear convinced the franc is overvalued and you will often get the same pat answer: it is not that France is exporting more, they will tell you, but that it is importing less.

This explanation has the virtue of simplicity, but it is miles wide of the mark: exports reached a record FF125bn only this March, according to government figures; and imports rose sharply to just under FF132bn.

In that case, it is often suggested, the world must be drinking a lot of champagne and eating plenty of paté de foie gras. That may be true: France has enjoyed a healthy trade surplus in agricultural and food products throughout the 1990s. But it still does not explain why the overall surplus has been so buoyant lately.

To understand that phenomenon, you need to turn to the so-called professional equipment sector, a catch-all category taking in everything from machine tools to aircraft, computers to ships.

Since starting to generate a surplus in 1992, this sector has quickly become a mainstay of France's impressive trade performance. It has produced a surplus of FF10bn or more in each of the last seven quarters.

In the second quarter of 1995, the surplus reached FF19.4bn. Add to that the country's regular surplus (FF7bn) in the first quarter of 1996 (in the land transport category - cars and the like - and the conclusion is inescapable: for all



Sound and fury: international anger over France's nuclear tests did not seriously damage its foreign trade

France's unmatched reputation in luxury goods and food items, good old-fashioned manufacturing turns out to be at the root of its recent trading success.

While this probably does not qualify as France's best-kept secret, it is little enough appreciated for Mr Yves Galland, the minister responsible for foreign trade, to have referred to an "image problem" in a recent address. France's image, he said, was still too focused on "our classical exports", such as luxury goods, fashion, wine and perfume. "Our exceptional

capacity to very many high-tech sectors is still not widely enough appreciated."

Mr Galland made these remarks while announcing that the government had decided to designate eight countries as priority markets for the purposes of foreign trade. The eight are: South Africa, Brazil, China, Korea, India, Indonesia, Mexico and Russia. Efforts will also focus on Japan and the US, the two countries with which France has its largest bilateral trade deficits. Mr Galland said Mr Jacques Chirac, the French

president, had set the objective of tripling France's market shares in Asia in the next 10 years.

A glance at the figures for this year's first quarter does much to explain this particular priority: France recorded a FF2.4bn deficit in its trade with the Asian tigers after six consecutive quarters when a surplus was registered.

Trends in France's trade with Japan were markedly more encouraging, however, with French exports rising 18 per cent. Sales to the US, meanwhile, were ahead by 15

per cent. According to Mr Galland, this first-quarter result showed France was "benefiting from the good health of the US economy and the progressive opening of the Japanese market".

Much the biggest slice of France's foreign trade involves its fellow European Union members, with which it has enjoyed a small surplus since 1983. Though many individual French companies have been hit by the recent slowdown in Germany, this surplus remained close to FF8bn in the first quarter of 1996, having

Car sales produced a big surplus with eastern Europe

attained a record FF10bn in the last quarter of 1995.

In a development of potentially major significance, a rapid increase in exports enabled France to record a trade surplus with the countries of eastern Europe in the first quarter of 1996 for the first time in years. Strong automotive sales to Poland were responsible for much of the improvement. The turnaround would have been even more marked were it not for increased French energy imports early in the year as a result of the cold winter.

Energy is one of the few sectors where France runs a perennial deficit. Sales of French goods to Africa were also at a record level of nearly FF23bn in the first quarter, resulting in a quarterly trade surplus with the region of FF9.8bn, the highest for a decade. This was largely due to two large exceptional items, however: the export of an oil platform to Congo and of a ship to Liberia.

LUXURY GOODS EXPORTS: by David Buchan

France retains that certain something

Exports benefit from the tradition of style and good taste established under Louis XIV

"Dear old France, its good cuisine, Folies-Bergères, gay Paris, haute couture, and ample exports of cognac, champagne, even Bordeaux and Burgundy, it's all finished," Georges Pompidou said in 1972. The future lay with high-tech and industry, he added.

But a quarter of a century later, the French luxury industry is booming. The 78 member companies of the Colbert Committee - in fashion, perfume, champagnes, cognacs, jewellery, leather - together sell some FF35bn worth of goods a year, three quarters outside

France. The sector has bounced back from the impact of the Gulf war, which emptied the duty free shops of the world, and the backlash of last year's French nuclear tests which led to a less damaging boycott of French goods - even in Japan, Australasia, Germany and Scandinavia - than originally feared in Paris.

The start of the Paris bourse has been LVMMH, the sector giant which makes most of its FF30bn sales out of Vuitton leather goods, Moët champagne, Hennessy cognac and perfumes and clothes from Christian Dior, Christian Lacroix, Kenzo and Christian Lacroix. After its share price rose 25 per cent last year and another 26 per cent so far this year, it now has the highest market capitalisation (FF111bn) in the country.

Investors have shown equal appreciation for France's mini luxury conglomerate, Hermès, whose share price has nearly quintupled in the past three years. The originality of Hermès has been to branch out of perfumes and silk scarves into all manner of high quality, traditional products such as shoes, watches and glassware. In the process, it has become a major supporter of French artisanal skills.

It was Jean-Baptiste Colbert, Louis XIV's industry minister, who first set up the French luxury sector out of a mercantilist belief that France should confine exports to products like Gobelin tapestries and St Gobain glass and keep basic goods with a war-making potential out of its neighbours' hands. But the country quickly acquired a taste for luxury that it has never lost.

Mr Christian Blanckaert, the former head of the Colbert Committee and now a senior Hermès executive, claims in a new book, *Les Chemins de Luxe*, that French predomi-



Shopping on the Champs Elysées: 300 years of fashion awareness

dance comes from what he calls "the educated middle class" in western Europe, the US and increasingly in Asia. Japan is the second biggest market (after France itself) for the Colbert Committee's 78 firms, but the entire Asia-Pacific rim now accounts for one third of exports.

Some of France's luxury products, particularly champagnes, cognac and decorative items (*l'art de la table*), have recently seemed sensitive to price rises, exchange rate fluctuations and economic downturns. But, by and large, they appear to sell more on quality which, in the view of Mr Blanckaert, is best ensured by companies keeping a strict control of their production and sales networks. Significantly, both LVMMH and Hermès have recently been taking over licences and franchises held by their distributors.

At the same time, however, French luxury goods have become a prime target for counterfeiters. According to Mr Blanckaert, France has nearly half the world market in luxury goods, but seven out of every 10 items faked are of French design, and French luxury companies spend 57 per cent of their turnover combating fraud.

A new threat, says Mr Blanckaert, is "the registering of similar or parallel trademarks", in which he claims the

south Koreans are expert. He cites such Korean variations on the themes of Chanel as Chanel, Chanelle, Chanelle, and on the Vuitton mark as Vouton, Vuiton, Vuitone.

But there is also counterfeiting closer to home. Mr Blanckaert has a particular grudge against Italy, "precisely because it is part of the famous 'art de la table'." How can France persuade Asians to stop making and selling fake products when it cannot dissuade its own Italian neighbour from doing this?

The prospect of Turkey, a big source of counterfeit textiles, entering the European customs union also strikes fear into the Paris fashion houses.

On a more positive note, Mr Blanckaert detects a considerable fall in counterfeiting in Hong Kong and Thailand, and believes the trend will continue. In 1994 France introduced severe penalties for counterfeiting and got the European Union to introduce tougher anti-faking rules. The new World Trade Organisation

has also taken a tougher line on guarding intellectual property.

French luxury houses naturally feel outraged by forgeries which wipe out some of their heavy investment in promotion and advertising their products. At the same time, all luxury goods manufacturers need to ask themselves why so many of their products are so copiable, and to ensure that "the real thing" relies on solid intellectual or artisanal content, not just so-called appeal.

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Price and currency shifts affect sales, but quality remains paramount

nance in the world luxury goods market stems from the fact that it has become completely intertwined between our history, our art de vivre, our culture, our temperament and our [luxury] houses".

It now has considerable snob appeal to growing numbers of people. Mr Blanckaert points out that the super-rich are a surprisingly small market for the French luxury industry which does only 2 per cent of its business in the Middle East, and equally little in Latin America. Some 95 per cent of

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ECONOMY: by David Owen

Over hill and down dale

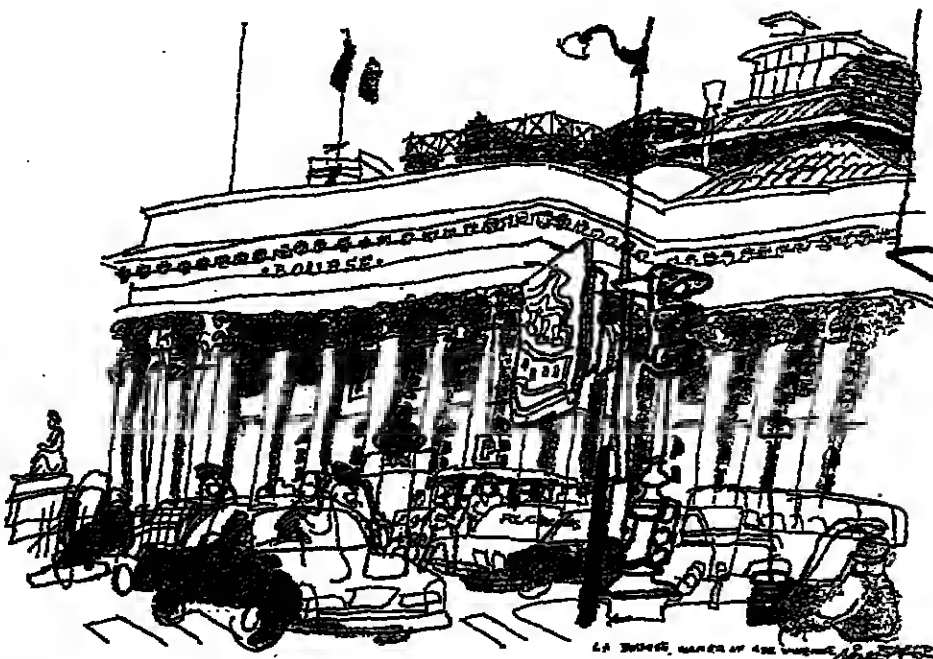
Trade unions still have the power to accelerate or retard the rate of economic growth

The French economy has had more ups and downs recently than one of the alpine stages in next month's Tour de France bicycle race:

- from virtual stagnation between April and October 1995 to a 0.4 per cent fall in the final quarter;
- from a 1.2 per cent spurt in the first three months of 1996 back, say analysts, to almost zero growth in the quarter just drawing to a close.

The chief explanation for this volatility lies in the way France's still influential trade unions, and consumers in general, have responded to a range of structural reforms and spending cuts devised by the conservative government to cut the country's extensive public sector down to size.

Both the late 1995 slippage and the alacrity with which the present year started were attributable in part to the wave of public-sector strikes which hit the country last December, bringing substantial swathes of the economy grind-



ing to a halt. For example, the strikes appear to have severely disrupted consumers' Christmas shopping plans, with the result that 1996 began with a burst of buying. Household spending on manufactured goods rose 5.1 per cent in January alone.

While this seems to have been no more than a blip (such spending has fallen three months in a row since then), overall household consumption still rose by 2.4 per cent in the first quarter after falling 0.3 per cent in the final period of 1995.

If one makes allowance for the effect of these strikes in shifting consumption that would normally have occurred in the last part of 1995 into early 1996, a much more regular pattern emerges: French economic growth has been anemic for more than a year,

and there is little conclusive evidence yet that a sustained upturn is in prospect.

Part of the problem is that no alternative economic motor has really emerged to take the strain from external growth. Exports remain impressive, particularly in view of the strength of the French franc and the problems of Germany, France's largest export market. But growth in the trade surplus has inevitably slowed down.

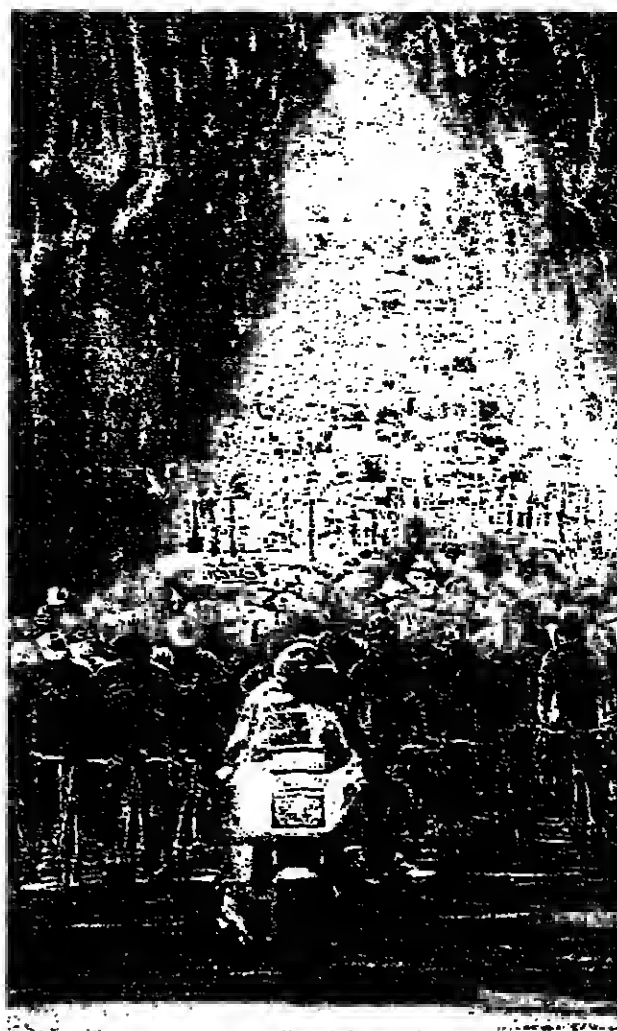
It reached FFy30.66bn in the first quarter, against FFy23.77bn in the corresponding period of 1995 - an increase of 19 per cent. The first-half 1995 surplus of FFy10bn represented a 22 per cent improvement over 1994 levels.

In spite of January's spending spree, most analysts expect consumer expenditure to remain subdued for the foreseeable future, owing to high taxes, concerns about job security and the high rate of unemployment.

Though this has begun to fall in recent months, it remains, at 11.9 per cent, among the highest in the G7 group of industrialised nations. Prime minister Alain Juppé has in recent weeks resorted to the promise of future income tax cuts in an effort to encourage consumers to spend more.

Ms Patricia Lormeau, a Paris-based economist with the French bank Paribas, interprets the steep reduction in stocks, without which first-quarter 1996 growth would have reached an impressive 2 per cent, as a negative sign for consumption, since it suggests companies do not expect the improvement in demand to continue. "Households will continue to be prudent," predicts Mr Olivier Eluère, an economist with Crédit Lyonnais, another French bank.

With a big chunk of the country's industrial base in the throes of restructuring, rarely a week passes nowadays without the announcement of large-scale job losses in one sector or another. Recent examples include Giat Industries, the loss-making tank and munitions maker, which last month announced a plan to reduce its workforce by 2,700, and France Télécom, which recently reached an agreement with some of its unions that could



Tour de France riders in the Pyrenees: mirror image of the economy

enable it to shed more than 15 per cent of its 150,000 staff over 10 years. In addition, rumours of significant job losses in the civil service have begun to circulate in the wake of a promise by Mr Juppé to trim "excess fat" from the service as part of his economy drive in the 1997 budget.

Meanwhile, the creation of new jobs is restrained in part by the high payroll taxes used to fund France's generous, but costly, welfare system.

All this has led to a groundswell of political support for the idea of spreading available work in France among more people by shortening working hours as a means of creating more jobs. Mr Juppé last month held out the possibility of tax incentives to lure French employers into meeting union demands for such moves. One way and another, unemployment has replaced inflation - which has been rising lately, but remains below 2.5 per cent

as the principal scourge of the French economy.

It goes almost without saying in the present circumstances that the government cannot afford to raise public spending to stoke up growth in the absence of other stimulants.

Ministers have set themselves the target of getting the public sector deficit down to 3 per cent of GDP in 1997 (from 5 per cent in 1995) to qualify for European economic and monetary union. Even if the government adheres to its present plan of holding public spending in 1997 at this year's level of FFy1,552bn, most analysts think this will prove a tall order. If Mr Juppé loosened the purse-strings, what is now a difficult target could start to look impossible.

Many observers argue, indeed, that this preoccupation with the deficit will condemn France to excessively high unemployment and indifferent

growth for some time yet. Mr Jean-Jacques Rosa, economics professor at the Paris-based Institut d'Etudes Politiques, says he can see "no reason" why the government's forecast of 2.8 per cent gross domestic product growth in 1997, after 1.3 per cent this year, should be met.

Recent trends in investment, at least, are more positive. Analysts were encouraged by the 3.1 per cent quarter-on-quarter increase in industrial investment in the first three months of this year, although some questioned whether it would continue. According to Ms Lormeau of Paribas, companies have the means to invest but it is far from sure whether they will opt to do so. The May monthly industrial survey conducted by Insee, the French national statistics agency, did not bode well; it suggested the outlook of professional equipment suppliers had taken a turn for the worse, with order books falling.

One development that may facilitate a sustained upturn in investment is the steady downwards drift in interest rates made possible by France's improved standing on international capital markets. This was symbolised in early May when interest rates on long-term French government debt slipped to around the same level as rates payable on comparable German debt. At least one French business leader - Mr Jean-Louis Boffa, chairman and chief executive of Saint-Gobain, the glass, ceramics and insulation group - thinks French companies should be taking advantage of such rates. "Today, you can get low-cost finance," he says. "Companies which are not taking advantage of that for their shareholders are making a mistake."

The precise pattern of French growth in coming quarters may continue to depend to an uncomfortably large degree on the nature of the trade unions' response to the cocktail of privatisations, spending cuts, restructurings and - increasingly probably - tax reductions Mr Juppé unveils. Their unhappiness continues to smoulder, largely in the form of one-day stoppages and action days.

But whether a sustainable upswing materialises may hinge in large measure on how many business leaders and ordinary consumers share Mr Boffa's views on the attractiveness of present interest rates.

PUBLIC UTILITIES: by David Buchan

Giants feel the squeeze

Telecoms are being broken up but other utilities are more resistant to radical change

Mr Alain Juppé is like a man walking on eggs as he tries to move France's state-owned utilities to a more competitive future without bringing their workforces back on to the streets to protest.

He seems to be getting away with deregulating the French telecoms sector and partially privatising France Télécom without breaking too many eggshells. By contrast, industrial relations remain fragile at Electricité de France (EDF), pending the outcome of European Union negotiations on a new directive to liberalise the energy market.

The government's attempt last autumn to streamline the SNCF rail company produced a messy omelette in the form of a paralysing 24-day national strike. Determined to avoid a repeat, the government is now to give the SNCF massive debt relief, without demanding productivity improvements from its workforce; however, rail unions are still unhappy with the more commercial approach that SNCF is being ordered to take.

A common theme to the debate over French public services is pressure for reform from Brussels and other members of the European Union. This pressure is often exaggerated in France and distorted into an erroneous belief that "Europe" is imposing privatisation on France; the Treaty of Rome is neutral between public and private ownership. But there is a free market spirit in much of the Treaty of Rome - of which France can hardly complain since it was the dominant EU country when that treaty was written in 1957 - and the recent trend in Brussels and in other member states has been to try to curtail monopolies.

However, much governments in Paris, particularly the centre-right one in power, may privately agree with this trend, they face special difficulties in following it. Overall, French unions are numerically weak, but strong in the public sector and further radicalised by the success of the December strikes. Nor is there much push for change from the French public, which accord-

KEY FACTS		
Area	549,080 sq km	
Population	58.4 million (1995 estimate)	
Head of state	President Jacques Chirac	
Currency	French Franc (FFr)	
Average exchange rate	1995 \$1=FF4.9915; 12/6/96 \$1=FF5.2083	
ECONOMY		
Total GDP (\$bn)	1,543	1,570
Real GDP growth (%)	2.2	1.0
GDP per capita (\$)	26,550	26,840
Components of GDP (%)		
Private Consumption	59.9	
Total Investment	18.2	
Government Consumption	19.6	n.a.
Exports	23.5	
Imports	-21.2	
Consumer prices (% pa)	-1.7	-2.1
Manuf. prod. (% pa)	1.0	-0.0
Unemployment (% of lab force)	11.6	11.8
Reserves minus gold (\$bn)	28.9	28.9
3-month FIBOR rate (%)	6.6	3.8
FTSE100 index (% change)	+0.5	+15.5
Govt debt as % of GDP	-5.3	-4.7
Gross public debt as % of GDP	-51.2	n.a.
Current account balance (\$bn)	16.9	12.0
Exports (\$bn)	285.2	276.0
Imports (\$bn)	273.1	266.0
Trade balance (\$bn)	12.1	10.0
Trade partners (1995, % value)	Exports	Imports
Germany	17.7	18.5
Italy	9.8	10.0
UK	9.3	8.0
BLEU*	8.5	9.0
Spain	7.3	8.5
US	5.9	7.8

* Latest figures - EU estimates for 1995 except Reserves (March), and stock market index (% change from 31/12 95 to 31/5/96). * = Belgium-Luxembourg Economic Union. Sources: Economist Intelligence Unit, Datastream, IMF.

ing to all the opinion polls is relatively satisfied with the service it gets from most public service companies.

France Télécom has greatly improved the quality of telephone service in France in recent years, and even without the spur of domestic competition EDF now pays clients compensation if its agents do not keep appointments.

To ease the widespread French fear that even competition, let alone privatisation, would introduce inequalities of service, tariffs and access, France wants to use the inter-governmental conference to write into the EU treaties the right of citizens to universal public services open to all at a reasonable price.

But pressure for liberalisation in telecoms - the most international of services - has

proved irresistible. The French parliament is in the throes of passing bills to remove France Télécom's monopoly on business services by July 1 and an ordinary voice telephony by January 1998, to set up an independent body to regulate competition, and to turn France Télécom into a regular company with its own capital, no longer 49 per cent of which will be sold to employees and investors.

There have been a series of one-day protests by France Télécom employees, but each was attended by fewer workers than the one before. This is hardly surprising, given that the government has promised to retain majority state control of France Télécom, to maintain it as the provider of a universal telephone service and to continue to give new recruits hired before 2002 the same civil service job rights that current employees enjoy. "The financial markets may not like this, but there it is," commented Mr Michel Bon, the France Télécom president, about the civil service guarantees.

EDF, one might have thought, would have everything to gain from greater liberalisation. It is the world's largest electricity producer with 54 nuclear plants, a big exporter of power (12 per cent of total output) to neighbouring countries which permit imports such as the UK, Italy and Switzerland, and increasingly a direct investor in power generation in remoter markets. To its competitors, EDF therefore looks more like predator than prey.

In fact, France does not mind EDF losing its monopoly on exports and imports, or for that matter, Gaz de France which has virtually no domestic output to protect. But France is adamant that EDF should keep control over the

transmission and distribution of electricity for two reasons.

The first relates to a worry that, without overall mastery of the market, EDF will be unable to do the long-term planning and investment which nuclear power requires. If foreign producers are allowed entirely free entry, the fear is that in certain cases they could, with a quick investment in conventional energy or exploiting a momentary drop in fossil fuel prices, render some of EDF's nuclear plants uneconomic, "stranding them like beached whales" in the words of one industry official.

The second factor is more political, stemming from a long-standing commitment by EDF and successive governments to charge individual customers the same price whether they live. This commitment has some real meaning in one of Europe's more sparsely populated countries, where charging farmers in remote areas the higher real cost of linking them to the EDF grid would be politically unthinkable.

The upshot is that - in negotiations with Germany, its main protagonist on the issue of EU liberalisation - France is ready to allow its largest energy-using companies to bargain with foreign producers for cheaper power, but is insisting that any power imports must pass through a "single buyer" - EDF itself or some government body. A few un-nationalised regional electricity distributors still exist, mainly in eastern France. At present they are totally tied into EDF for supplies. The government is not prepared to let them search abroad for cheaper power, for fear they might actually find it, pass it on to their individual customers and so break the universal tariff.

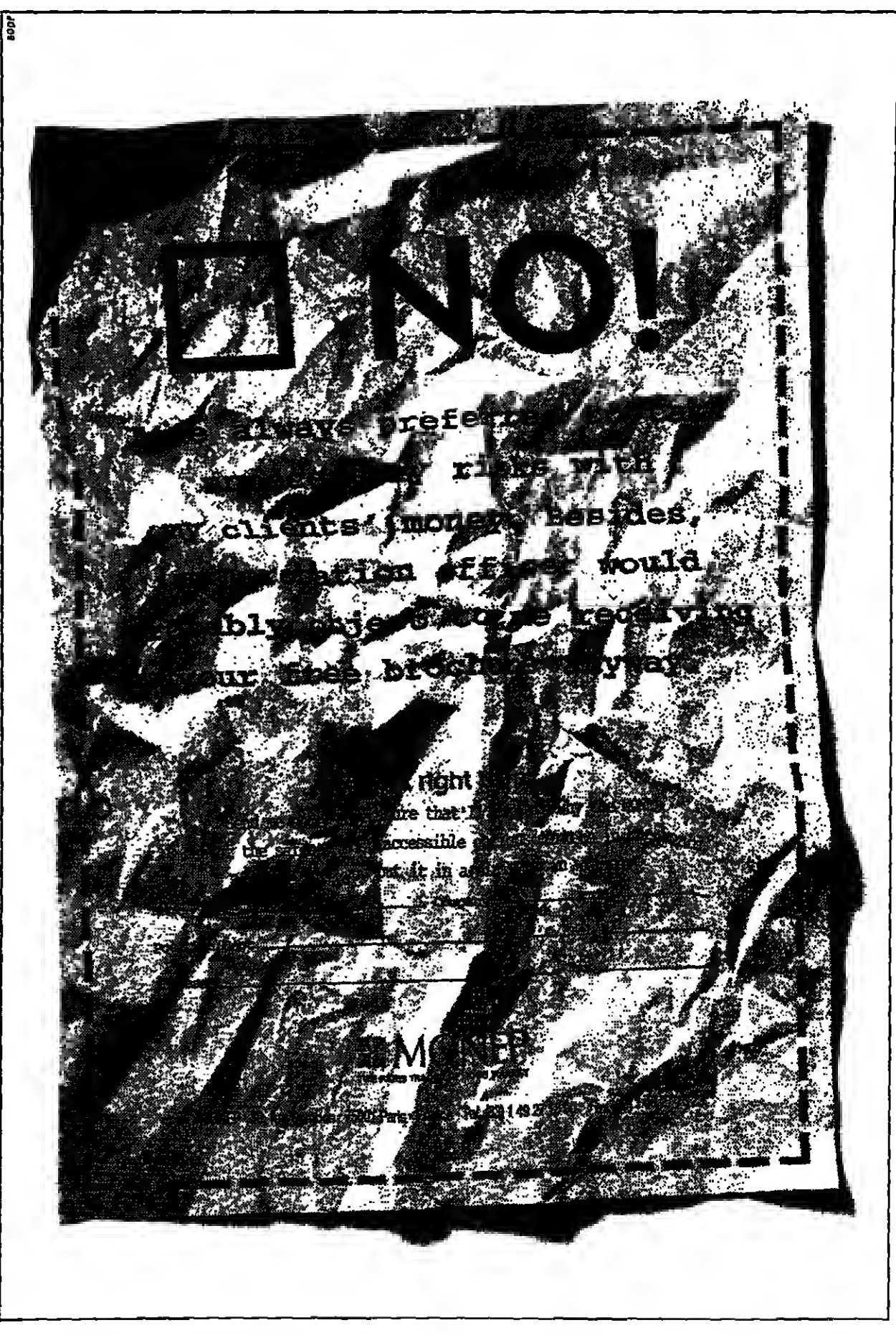
The SNCF's biggest problem is its crushing FFy206bn debt.

Competition on rail freight heads for the buffers

and the government has now taken hold action to take over that part of the debt - FFy125bn - which is related to infrastructure and put it into a new state holding company that will assume all future responsibility for building new track. The SNCF and its 180,000 employees is to stay intact, but henceforth purely as a rail operator. Thus, SNCF will pay toll fees to the new state company for use of "its" track, and in turn get paid for maintaining the track.

The plan goes much further than the 1991 EU directive which merely required railways to separate infrastructure from operating costs for book-keeping purposes. Mr Loïc Le Floch-Prigout, the SNCF president, said the debt relief would halve the company's financial charges, allowing it to aim at an eventual overall profit.

But another proposal for change comes from Brussels. The European Commission last year proposed the opening of rail freight to cross-border competition. Following the French rail strike, the Commission has scaled down its proposal to suggest that only the busiest freight routes might be opened to other EU carriers. But even that proposal may hit the buffers.



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6 FRANCE

DEFENCE POLICY: by David Buchan

End of the citizens' army

Abolishing conscription – and a revamped arms industry – are the order of the day

As commander-in-chief, Jacques Chirac has given the order for all change in France's armed forces and its defence industry.

By 2002, France will have all-volunteer forces, ending nearly a century of military conscription. These fully-professional forces will be far smaller than today's, but are intended to pack a bigger punch at roughly the same cost. The creation of more compact forces, involving the scaling down or cancellation of some equipment programmes, is to be matched by a government-steered reshaping of France's fragmented armaments sector.

The government plans to oversee the forming of new combines, particularly in aviation and electronics, which from a position of greater strength would be able to negotiate near European industrial partnerships in order to confront renewed competition from the US.

It is an agenda of change that is deeply unsettling to many of France's soldiers, garrison-towns, defence companies and workers, and to its chief ally, Germany, worried about the implications for its own military and industrial ventures with France. But President Chirac feels that defence reform is long-overdue, and appears to be determined to make it one of the hallmarks of his presidential term.

● The changed threat. Six years after the fall of the Berlin Wall and consequent defence retrenchments by all its main allies, France recognises it no longer needs mass formations to fight the land war in central Europe that never came. Following its rapprochement with Nato, it is now more prepared to face any residual territorial threat in conjunction with its allies, while giving its large, para-military gendarmes – the one service to increase in numbers, by 5 per cent to 98,000 by 2002 – a bigger role in ensuring internal security which is increasingly a problem of ter-

rorism or drugs. The main future role of France's regular army, navy, air force will be to project themselves into overseas trouble spots, and more impressively than in 1991 when France, with forces twice the size of the UK's, was only able to send to the Gulf half the contingent that the UK did.

● The new force structure. The next six years will see the army shrink by 36 per cent, the navy by 19 per cent, and the air force by 24 per cent, as conscription is phased out. In deference to a feeling – widespread among politicians but not the general public – that national service still constitutes an essential "republican value", the government is proposing to require all 18 year olds, girls as well as boys, to attend a compulsory "civic rendezvous" for about a week.

The only point of this seems to be that it will provide information about the health and

aptitude of French youngsters so that, in a real emergency, conscription could be swiftly reintroduced. It would also inform the country's youth about the kinds of voluntary service – the armed services, or humanitarian aid abroad, or social work at home – for which they could volunteer if they felt so minded.

The armed services want France to be able to mobilise a sizeable force of 30,000 troops, with air and sea support, for some foreign crisis spot and sustain them there for a year – and at the same time to be able to send a small force of, perhaps, 5,000 troops elsewhere. This "one and a half crisis" strategy reflects France's intention to take the lead, along with the UK, in European crisis intervention or peacekeeping, as well as maintain its defence commitments to former colonies in Africa.

This strategy requires better intelligence-gathering and better military transport. But one of the major flaws in the new Chirac programme is that, while it contains money for new spy satellite programmes, it has almost none to spare for France's share of the Future Large Aircraft (FLA) military transport. As a result, France is campaigning for the Airbus consortium to develop commercially an FLA, which it and other governments would then buy off the shelf.

● Budget constraints. The new limit on defence spending for 1997-2002 is to be FF185bn a year, split between FF95bn for pay and FF86bn for equipment, in constant 1995 francs. This increase would allow nominal defence spending to reflect inflation. The FF86bn for equipment is considerably less than voted in recent years by the parliament, though not much less than that actually spent because of frequent credit freezes by the government.

However, the government has appointed a new defence procurement chief, Mr Jean-Yves Helmer, the former head of Peugeot's car division, and is looking to him to make a 30 per cent cost saving and efficiency improvement in weapon procurement over the next six years. One result may be a substantial reduction in the procurement executive, which at present employs nearly 50,000 people.

● Equipment. In addition to scrapping the aged land-based nuclear missiles in southern France, the government has decided not to build a fifth new nuclear missile submarine and is delaying delivery of a third one until 2002. The single most expensive programme, the Rafale jet whose cost of production by Dassault is said to be five times its weight in solid gold, is to be continued, but at a slower rate and the navy is only to get 60 of these machines (instead of 86) to put on its nuclear-powered aircraft carrier, the Charles de Gaulle, still under construction.

The army is to get 406 Leclerc tanks (instead of the 650 it originally planned for), while technical requirements for a new armoured vehicle are being scaled down in the hope it can be made jointly with Germany and perhaps the UK.

French orders for the Franco-German Tiger attack helicopter are to be maintained at 25 over 1997-2002, but the first delivery to the army is to be delayed by two years. It is also likely that over the long term France may halve the overall number of 215 Tigers it had originally intended to buy.

● Restructuring. The government has two sets of tasks in mind. The first is to strengthen the weak finances in certain loss-making state-owned companies. Snecma, the aero-engine company, is one of several state enterprises now asking the government for recapitalisation to cover past losses. But the worst case is Giat Industries. Created in 1990 out of various government arsenals making tanks, guns and ammunition, Giat managed to report a net loss of FF10bn for last year on sales of only FF7.5bn. Part of the loss was provisions to cover the exchange rate risk on Giat's contract to supply the United Arab Emirates with 436 Leclerc

tanks at a fixed dollar price of \$3.6bn; far from being Giat's salvation, the enormous UAE contract has thus caused some of Giat's present problems.

Early because of the Giat precedent, the government seems unlikely to hive off its DCN navy yards into a similar sort of state company. But the

Arms makers will be encouraged to amalgamate

DCN yards, which employ 25,000 people directly and another 5,000 indirectly and constitute Europe's largest ship-building force, pose a serious problem for the government. The DCN has managed to export ships, but not enough to cover the fall in French government orders from FF20bn in 1990 to FF14.5bn last year. Its status as a government arsenal also makes it more dif-

ficult for it to co-operate with UK and Italian yards with which it is building the new Horizon frigate class.

But this year's main dramas turn on the outcome of two government plans. The first is to merge the state-owned Aérospatiale with Dassault, in which the government has a large stake and even larger leverage but which is headed by Mr Serge Dassault. The latter has been stubbornly resisting seeing his famous family company being swallowed up by the much bigger Aérospatiale, but after some hard bargaining will probably concede in the end.

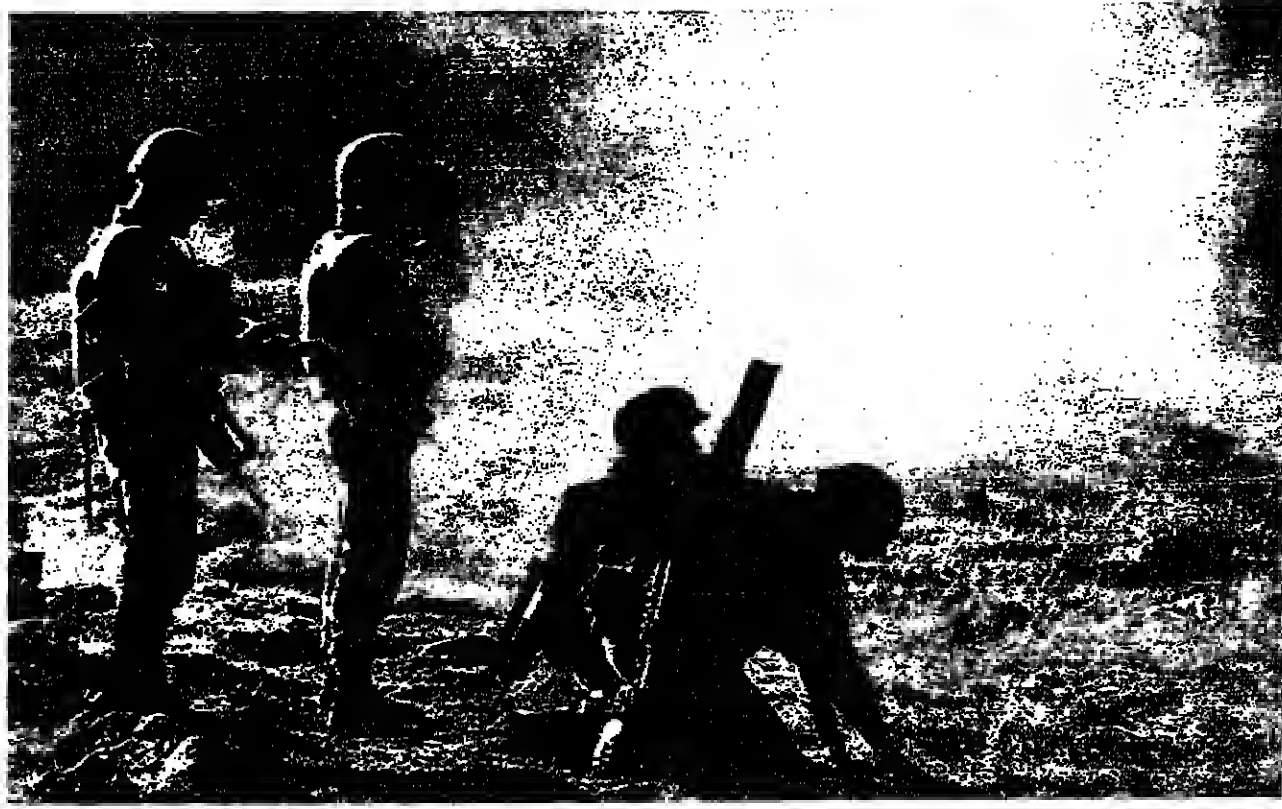
The other drama concerns the government decision to privatise the Thomson electronics group this year. This has set off a fierce contest between two private groups – Lagardère and Alcatel – for Thomson.

The government's desire to sell Thomson-CSF, the profitable professional/defence electronics division, and Thomson

Multimedia, the loss-making and indebted consumer electronics business, as a whole appears to suit Alcatel. Though undergoing deep restructuring, which has pushed it into loss, Alcatel is of a size to absorb the whole Thomson group, and Multimedia could find some synergy with Alcatel's telecommunications activities.

By contrast, the smaller Lagardère group has made clear it is only interested in Thomson-CSF, but says it is ready to arrange a buyer for most of Multimedia, except for its digital satellite television decoder business.

Vaunting its defence expertise and relative financial soundness, Lagardère has also said it would bring UK and German companies into any eventual merger of its Matra defence arm with Thomson-CSF, thereby creating instantaneously one of the mega-European defence alliances which Mr Chirac has called for to take on US industry.



Rapid deployment October 1995: French Foreign Legion in mortar practice at Mt. Igman near Sarajevo

Picture AP



Rapid deployment July, 1798: Napoleon at the Battle of the Pyramids

FINANCIAL SECTOR: by Andrew Jack

Financiers feel the heat

Insurance houses and banks appear powerless to master a recurring series of troubles

Nothing could be more symbolic of the current tensions facing the French financial sector than the huge fire which ripped through the headquarters of Crédit Lyonnais, the state-owned bank, on a Sunday morning in early May.

Already struggling under the burden of a FF135bn restructuring package brokered last year with the government, the bank's executives – and much of the city's population – watched powerless as their historic central Paris office complex was consumed by flames.

While the French media quickly started speculating on whether the bank with its seemingly endless troubles was cursed, the country's insurers were getting to work on the more practical matter of assessing the financial damage of the claim – which could ultimately reach FF1.6bn – to their own balance sheets.

Plagued by high costs, intense competition and little demand for credit, the country's banks are only barely scraping back towards profitability. For the second year in succession, net banking revenues for the members of the Association of French Banks fell in absolute terms, down to FF27bn – a trend which had not previously been seen since before the second world war.

Net income crept back up to FF2bn, after falling to heavy aggregate losses of FF11bn in 1994, but largely as a result of a substantial decline by 38 per cent in provisions to FF37bn, as the crippling impact of the property crisis – notably for Parisian offices – and lending against struggling small businesses loans diminished. There has so far been little compensating recovery in demand for credit from either companies or individuals.

Crédit Lyonnais itself scraped back narrowly into profit, but only after intense internal debate. A number of analysts suggest that the bank will again drop heavily back into the red again for 1996, raising the prospect of renewed calls for re-negotiation of its rescue package or a recapitalisation ahead of an eventual privatisation.

In view of the gloomy outlook, it is little surprise that the commercial banks renewed their attack on what they see as the uncompetitive domestic environment in particular, the existence of mutualist banks, the Post Office and the Caisse

d'Épargne savings bank network, with no requirement to provide a return on equity to their "shareholders".

Equally, they accelerated their own efforts to restructure and win business. For example, a significant number signed local agreements with their branches with greater flexibility in opening hours, notably on Saturdays. Most continued gradual programmes of job reductions. At the same time, they have been aggressively marketing new savings and loans packages.

The last few months have seen important shake-ups in the sector. Crédit National acquired the Banque Française de Commerce Extérieur, and Crédit Agricola took over Banque Indosuez from the ailing Suez financial holding company.

In the next few months, there is also likely to be substantial progress towards the sales by the state of Marseille de Crédit and CIC, which is owned by GAN, the publicly-controlled insurance group.

Yet so far, there has been little sign of willingness by the banks to indulge in an aggressive cost-cutting process –

something which could trigger an explosive political reaction at a time of high unemployment in France, and which helps to deter potential foreign acquirers.

Meanwhile, questions continue to surround the supervision and regulation of the country's banks. Controversy was notably sparked by the financial crisis at the start of the year at Crédit Foncier de

Paris in 1994. UAF's shares still stand substantially below its offer price – a legacy which hung heavily over those planning the sale of its rival. Yet news of the privatisation of AGF did little to depress the share price ahead of the sale, and the results appear impressive.

The public offer for the shares was more than three times over-subscribed, the institutional placing – including many US funds – more than six times, while the tranche for the group's employees was just about taken up. The exercise exceeded the government's projections, and will provide it with more than FF8.5bn in funds.

Even so, not all was as rosy as it might at first seem. Mr Antoine Jeancourt-Gaillagnani, AGF's chairman, had a preferred response when quizzed by sceptical investors about the poor performance of previous financial service sector privatisations.

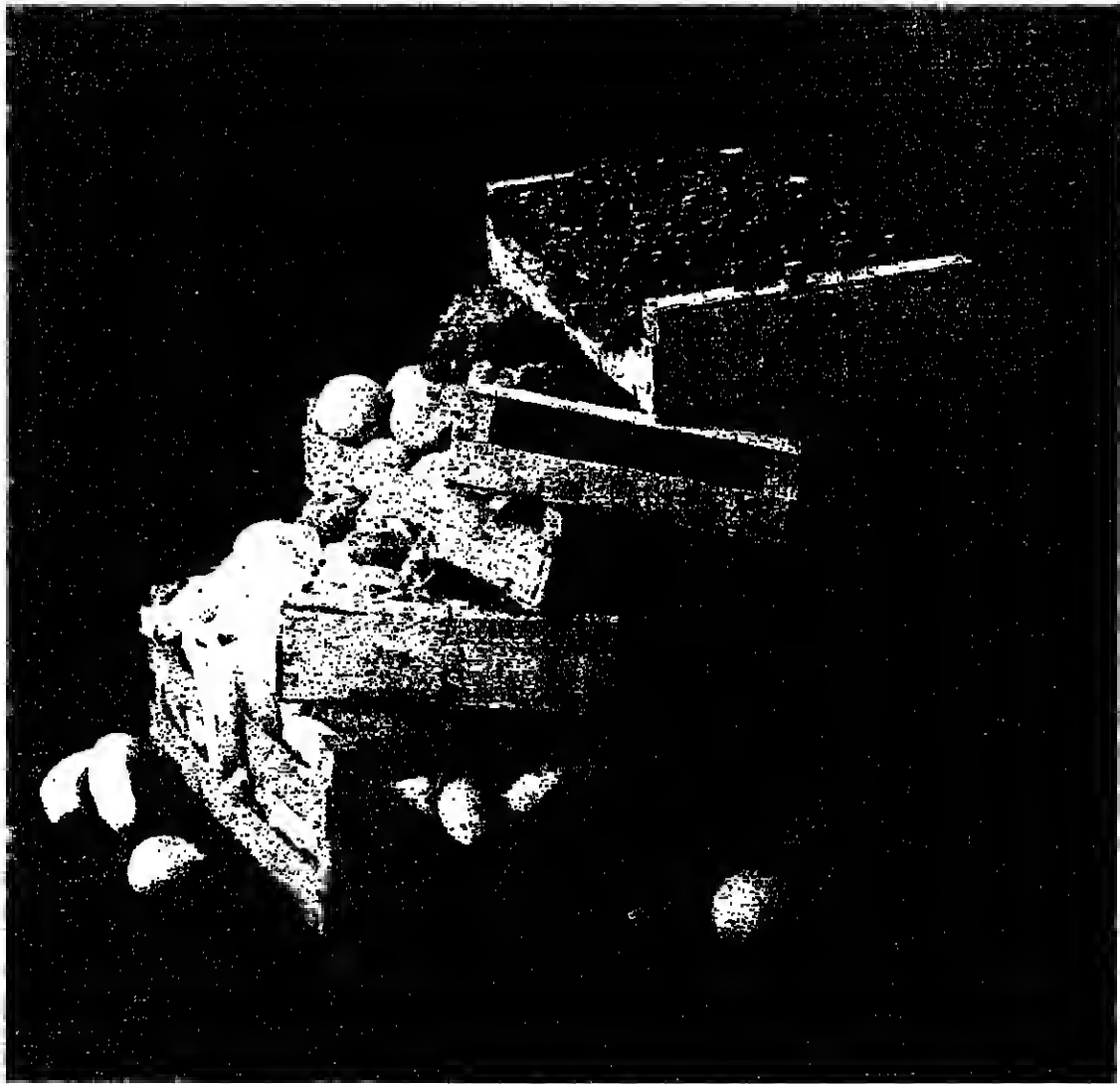
He pointed to a graph showing net asset values at a discount to share prices for the financial sector two years ago – a relationship which has since reversed. In other words, AGF is a bargain because it has been bought at such a low point in the cycle, at a heavy discount to its worth.

That said, many analysts praise the management approach now evident at AGF, and its new emphasis on shareholder value – a philosophy long enshrined by the private sector group AXA, but less evident in a number of its rivals.

Meanwhile, the Federation of French Insurers signed an important agreement in principle at the start of this year with FNS-AGA, the organisation representing the country's network of tied insurance agents. The deal will allow substantially more flexibility in the negotiation of contracts between agents and companies.

Spurred by AGF's success, the Caisse Nationale de Prévoyance, a state-owned life assurance group, may also come up for sale over the next few months.

All is certainly not doom and destruction in the French financial sector. But clearing away the ashes and wreckage of the past few years is still far from over.



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Yet another disaster as Crédit Lyonnais' Paris HQ burns out of control

SWEDISH BANKING

Fresh challenges after crisis ends

The banks are disposing of the last legacy of their trauma. But several factors combine to make the coming years a tough prospect, reports Hugh Carnegie

Shortly after the traditional midsummer celebrations that will be held the length and breadth of Sweden this weekend, the country's banking establishment will have another reason for dancing round the maypole. From July 1, the blanket guarantee of all Swedish commercial bank commitments issued by the government in late 1992, when the banking system was teetering on the verge of collapse, will finally be withdrawn.

On the same day the Bank Support Authority, set up to steer the banks through the crisis - brought on by a calamitous spate of credit losses - will be disbanded. After disbursing SKr65bn in taxpayers' money to rescue the banks - most of it to take over, clean up and merge the two biggest victims, Nordbanken and Gota Bank - the authority's work is done.

At the same time, the banks themselves are in the process of disposing of the last legacy of the trauma. They are all set by the end of the year to spin off the large property holdings they acquired as a result of foreclosing on billions of kronor in bad loans to the real estate sector which were the principal cause of the credit losses.

"What is happening is extremely satisfying," says Mr Stefan Ingves, deputy governor of the Riksbank (the central bank) and a former chief executive of the Bank Support authority. "When these steps

are taken, in a technical sense the whole banking crisis will be over and the banks can concentrate fully on their future banking business."

That future is not without big challenges. Several factors combine to make the coming years a tough prospect for the banks: a retail banking market showing little growth; a sharp increase in competition within the financial services sector caused by deregulation; the need to master fast-developing technology; and the looming prospect of European monetary union.

But they can at least take comfort that they are facing these challenges in relatively robust shape after the traumas of the loan loss episode.

First, profitability has been restored as levels of loan losses have dwindled. Last year, the top five banks (Svenska Handelsbanken, Sparbanken Sverige, or Swedbank, Skandinaviska Enskilda Banken, Nordbanken and Föreningsbanken) had combined operating profits of SKr18.5bn, a 50 per cent improvement on 1994 and a far cry from the SKr50bn in operating losses suffered by the banking system in 1992.

Loan losses in 1995 among the top five totalled SKr11.3bn - almost half the 1994 level and only a fraction of the SKr73bn lost in 1992. The banks have got the level of their loan losses down in most cases to less than 1 per cent of their total lending portfolio.

Income to equity ratios for the big five ranged in 1995 from a low of 10.3 per cent at SE-Banken, which suffered an unexpected new round of losses related to the early 1990s, to a high of 27.5 per cent at Nordbanken, whose results were still benefiting from the big clear-out of bad assets performed earlier by the state.

The state too, has seen a payback. The flotation of a one-third stake in Nordbanken last year raised SKr6.7bn to add to the SKr3.7bn Nordbanken had

already paid in dividends. The government now hopes to recoup at least SKr40bn of the support it gave by means of the further sale of Nordbanken shares and through the unwinding of former Nordbanken assets held by Securum, the state-owned "bad bank" set up to take on the bank's problem loans.

With their balance sheets rebuilt, the banks have moved on to the final task of offloading their property holdings. In the case of SE-Banken, Handelsbanken, Swedbank and Föreningsbanken, these have been put into special real estate companies that are now to be capitalised and spun off to their shareholders via stock exchange flotations.

Diligentia, the SE-Banken vehicle, is the biggest, with a property portfolio of no less than SKr23bn, about half of it outside Sweden. It will be Sweden's biggest real estate company. SE-Banken is spending SKr7bn of its own equity and providing another SKr3bn in subordinated loans to capitalise Diligentia, which is due to be listed on the Stockholm bourse in the second half of the year.

But even after such operations, the banks' equity will be strong. Before the spin-offs, the banks have capital ratios of 15 per cent or more - prompting some to say the Swedish banks had become overcapitalised. After spin-offs they will typically still have capital ratios of about 13 per cent.

Another important strength of the Swedish banks as they emerge from the after-effects of the loan loss affair is their largely efficient cost basis. Ironically, the banking crisis helped achieve this as it forced the banks to reduce staff and branch numbers - and provided a climate in which such reductions faced little trade union opposition.

As a result, Handelsbanken



Stockholm's main banking district: challenges ahead



Midsummer dancing: a time for celebration

and SE-Banken emerged in first and fourth place respectively in a ranking of European banks by Merrill Lynch gauging the level of expenses to assets in mid-1995. At Handelsbanken, the level was 1.25 per cent, while at SE-Banken it was 1.75 per cent.

"After the banking crisis many people got the impression that the Nordic banking system was really in a mess," says Mr Arne Martensson, Handelsbanken chief executive. "But in Sweden, bank costs are really under control. It was a real estate crisis, not a cost crisis."

The banks will need this advantage to help them meet increasingly tough constraints on profit-making.

The underlying banking business in Sweden is sluggish. Levels of lending declined sharply from 1991 to 1994 and although they have recovered somewhat they still stand well below pre-crisis peaks. The loss of tax breaks on interest pay-

ments, a sharp rise in the savings rate and the government's sharp spending cutbacks have all contributed to dampened demand for borrowing.

The banks are finding it increasingly hard to increase net interest income as interest spreads, once so generous for Sweden's banks, have shrunk.

There are more opportunities in servicing the corporate sector and in trading. The banks are all seeking to increase their fee income and have greatly increased their own bond and securities portfolios.

But competition is crowding in, from outside as well as within the traditional banking sector. The banks are anxiously anticipating the advent of European economic and monetary union as a likely harbinger of more foreign competition: already many top European and US banks have operations in Stockholm offering corporate and investment banking services.

Deregulation has also meant the old distinctions between banking, insurance and savings institutions have broken down to a significant degree.

Insurance companies, mortgage banks - even retailers - have opened so-called niche banks, using telephone systems backed by advanced technology to encroach on the banks' deposit base. The market share of the newcomers is still small - barely 3 per cent of household deposits. But there appears to be a clear trend developing towards services which offer premium interest rates based on streamlined, low-cost service charges - and which challenge the expensive, and extensive, bank branch networks.

But the banks themselves are redefining the traditional bastions of the insurers by marketing a growing range of savings products - in which the bank branch networks are an important selling tool.

The key appears to be developing the technology to minimise costs on routine transfer and payment systems and so devote resources to selling other products. Telephone banking - in which Sweden is one of Europe's leaders - is one route; the banks and other financial institutions are busily experimenting with others, from interactive "video-telcos" for doing insurance business, to credit-loaded "smart cards" used to replace cash.

"The banks are taking market share in insurance savings products because of our branch networks," says Mr Reinhold Geijer, chief executive of Swedbank. "The idea is not to close them down but to convert them. The big challenge is to get out of cash handling."

Mr Marc Pinto, Nordic analyst at Fitch, the US ratings agency, says the Swedish banks have made strides in this direction. "The Swedish banks are very advanced in non-monetary transactions.

INSIDE THIS SURVEY

● **The economy:** The focus switches to growth and a struggle against record double-digit unemployment figures

● **Restructuring:** The loan loss crisis of the early 1990s is largely a bad memory but the banks still face difficult structural challenges

● **Niche banks:** Low cost base is the key

● **The insurance sector:** A period of transformation

● **Capital markets:** Sweden has two of Europe's most dynamic exchanges

● **National debt:** Lender sentiment has shifted

● **Preparing for Emu:** Uncertainty prevails

● **Supervisory regime:**

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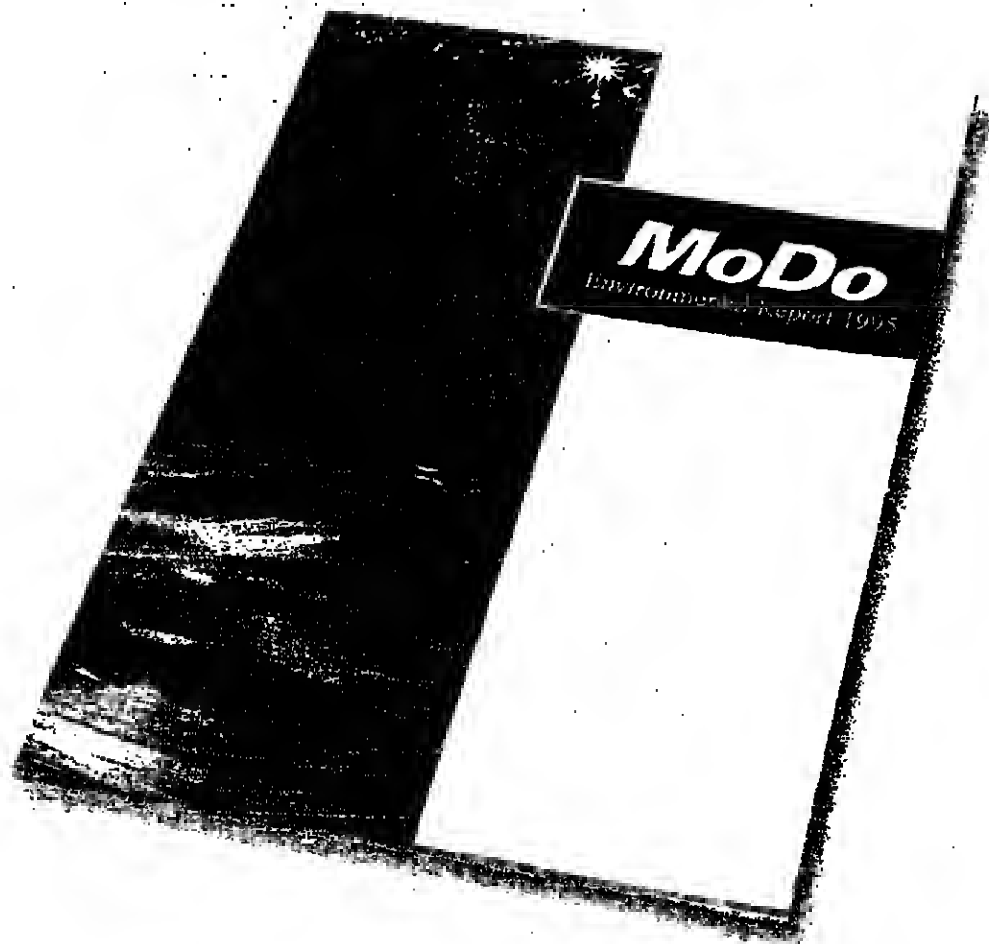
Production Editor: Phillip Sanders

That has helped drive down costs," he says.

But however efficient the various financial groups become, many analysts still foresee more rationalisation within the industry in Sweden. The banks have adopted different strategies to secure a growing future. Handelsbanken has embarked on an attempt to become a full-service bank in all Nordic markets. SE-Banken, through its Enskilda Investment banking arm, aims to be the premier Nordic bank for the international corporate sector. Nordbanken and Swedbank are concentrating more on the domestic retail sector.

These last two particularly may look to expand through merger or acquisition. The same pressure is felt by the domestically-oriented insurers and the smaller banks and mortgage institutions. Some significant structural reshuffling within Sweden's financial sector seems highly likely in the near future.

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2 SWEDISH BANKING

The economy: by Hugh Carnegie

Focus switches to growth

A real worry has been created by the marked slow-down in growth this year after 3 per cent growth in 1995

The dominant issue in the Swedish economy since the country emerged two years ago from crippling recession has been the battle to regain control of public finances. Today, victory appears to be in sight - but meanwhile the economy has slumped again, leaving the Social Democratic government struggling against record, double-digit unemployment. The 1991-93 slump, which saw the economy shrink by some 5 per cent, wreaked havoc in Sweden's big, welfare-dominated public sector.

public spending was swelled by escalating unemployment and revenues were hit by recession. Bringing the public finances back into balance became the urgent priority for the Social Democratic government that was elected in late 1994.

It overshadowed even the rise of unemployment in a peak of 13 per cent, a traumatic experience for a country which in the 1980s had believed it was immune to the European disease of mass joblessness.

Regaining control over the budget took an even greater importance as Sweden joined the European Union in 1995. The government, faced by a deep split in the SDP and the country over European policy, is taking a cautious approach to Swedish membership of the European monetary union planned to start in 1999.

Even if it is accepted by its partners, Mr Göran Persson, the prime minister, will face an awkward struggle to win broad backing for Swedish member-

ship. But the country faces a permanent premium on interest rates if it does not meet the fiscal and monetary criteria for Emu, whether or not it elects to join.

Some 30 months after taking office, the government has advanced a long way. Under Mr Persson, who stepped up from the finance ministry to become prime minister in March this year, a three-year programme of spending cuts, tax increases and asset sales has been implemented to achieve savings equivalent to nearly 8 per cent of GDP.

It is an unprecedented effort which has meant painful cuts in Sweden's famously-generous welfare system, including reductions in a range of benefits and institutional cutbacks.

As a result, the budget deficit is now forecast to fall from a high of 12.3 per cent of GDP in 1993 to slightly more than 3 per cent in 1997 and disappearing in 1998, while the public debt (under the Maastricht Emu definition) is seen peaking at

32 per cent of GDP in 1996 and declining steadily thereafter.

These developments should bring Sweden within sight of meeting Emu conditions. The krona has gained sharply in strength, with some private sector economists predicting it will join the exchange rate mechanism of the European Monetary System by the end of this year.

Crucially - not least from the point of view of the country's banks - interest rates have tumbled. The Riksbank's key short-term repo rate was down to 6.30 per cent and the yield on long bonds was under 8.5 per cent at the time of writing. The premium over benchmark German rates has been halved from the spread of more than 400 basis points at the peak of the crisis.

The Riksbank has been able to lower the repo rate 12 times this year because inflation - which the bank feared was a threat as recently as mid-1995 - has flattened out and is set to remain under 2

Key facts

	1995	1996	1997		
Demand and output, volumes (%)					
Private consumption	0.5	0.5	1.0		
Government consumption	-2.3	-0.5	-0.5		
Gross fixed investment	10.6	6.9	2.2		
Exports	11.4	3.0	8.0		
Imports	3.7	2.5	4.6		
Gross domestic product	3.0	1.1	1.9		
Key economic indicators					
Unemployment (%)	7.7	7.5	7.3		
Industrial production (%)	10.5	-2.0	1.3		
Consumer prices (%) average	2.9	1.8	2.0		
Consumer prices (%) December	2.6	1.9	2.1		
Trade balance, SKr bn	106.1	111	130		
Current account, SKr bn	33	38	51		
Current account, % of GDP	2.0	2.2	2.8		
Central government borrowing, SKr bn	139	85	40		
Public sector financial balance, % of GDP	-8.1	-4.2	-3.0		
Public sector gross debt, % of GDP	79.3	80.4	79.4		
Financial forecasts	Current	Sep 95	Dec 95	Mar 97	Sep 97
3-month interest rates	6.34	5.60	5.50	5.70	6.00
10-year bond yield	8.58	8.15	8.85	8.00	8.40
6/5K	6.82	6.75	6.88	6.62	6.53
DMS/5K	4.48	4.40	4.40	4.50	4.40

per cent for 1996 as a whole. The outlook for the economy is far from being without problems, however. A real worry has been created by the marked slow-down in growth this year after 3 per cent growth in 1995. A slow-down in

what had been a powerful export boom and the continued weakness of the domestic economy have led to two successive quarters of negative growth. Latest forecasts for the full year range as low as zero growth in 1996, with the government's

own estimate of 1.4 per cent growth is likely to prove over-optimistic.

Almost every institution expects a pick-up late this year or early next year - in line with most forecasts for the European economy as a whole. But forecasts for 1997 at best anticipate 2.3 per cent growth and at worst as little as 1 per cent.

These forecasts are to a large degree factored into the government's calculations for the public finances - which are highly sensitive to the swings in the macro-economy because of the large public sector dependence on the relatively small tax generating private economy.

But the low growth augers extremely badly for employment growth - and persistently high unemployment in turn puts pressure on public spending because of the high benefit levels in Sweden.

Increasingly, the emphasis is swinging from concern about controlling the fiscal deficits to the vital issue of how to generate more sustainable growth in an economy where the public sector still accounts for more than 60 per cent of GDP - the highest of any industrialised

economy. Mr Persson has promised to halve unemployment by the end of the century.

At present the total out of work, including those on government-funded training schemes, stands at about 12 per cent of the workforce.

Private sector economists and the conservative opposition are pressing for more radical policies to stimulate private sector growth. They are demanding more flexibility in labour market regulations and lower taxes on capital to encourage more small company growth, especially in the service sector.

But the Social Democrats - and especially the powerful LO blue collar labour organisation - are proving reluctant to go down this path, resisting changes such as the scrapping of first-in, last-out dismissal rules and the emergence of bigger wage differentials.

Mr Persson's approach is angled towards achieving a form of "social contract" binding employers and unions to moderate wage agreements, rather than a big overhaul of established labour market practices.

Restructuring after the credit-loss crisis: by Hugh Carnegie

Banks wrestle with changes

Swedes are increasingly looking for high-yielding savings products rather than leaving their money in bank deposits

"Where do the banks go from here?" is perhaps a more pertinent question in Sweden in 1996 than in most European countries.

The loan loss crisis of the early 1990s may now be largely a bad memory, but the banks are still wrestling with the difficult structural challenges thrown up in the post-crisis era. Much has already changed in the shape of the Swedish banking sector but more changes are likely as the banks face up to the low growth and rising competition that characterises their home market.

Several important rationalisation moves were made as a direct result of the credit loss crisis. Biggest of all was the merger by the state of Nordbanken and Gota Bank, the

two greatest victims of the trauma, whose losses were so great that the state was forced to take them over and perform a wholesale laundering of their balance sheets. Together, they swallowed the lion's share of the SKr65bn which the crisis cost the Swedish taxpayer.

Nordbanken (the Gota name has disappeared) is now operating profit of SKr5.1bn was the highest of any Swedish bank and the process of its intended complete re-privatisation has begun with the sale

last year of a 34.5 per cent stake in the bank.

The early 1990s also saw the reorganisation of the highly fragmented - and ins-burdened - Swedish savings banks which were brought under one roof in a new commercial bank called Sparbanken Sverige - or Swedbank. Swedbank has also moved firmly into the black and although it is still controlled by a group of savings bank foundations, was floated on the Stockholm bourse in early 1995.

Sweden's five largest commercial banks now rank as follows: Svenska Handelsbanken, with total assets at the end of 1995 of SKr476bn; Swedbank (SKr467bn); Skandinaviska Enskilda Banken (SKr439bn); Nordbanken (SKr339bn); and Föreningsbanken (SKr106bn).

This year, all but Nordbanken - which had the vast majority of its bad loans extracted by the state - are engaged in one of the last important structural processes left over from the loan loss convulsion. They are spinning off the property subsidiaries they were forced to set up as they called in the security on thousands of their bad loans - most of which were to the real estate business.

These subsidiaries are now important property companies in their own right and are set to transform the Swedish real estate market as they are floated by their bank owners onto the bourse. The biggest is Diligenta, held by SE-Banken, which holds properties worth no less than SKr23bn.

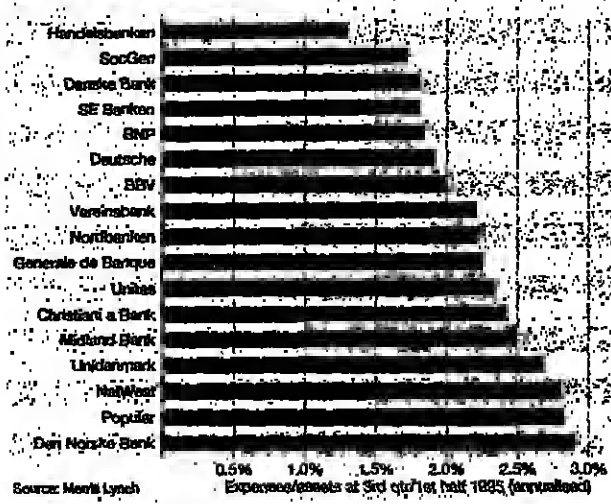
It will be easily Sweden's largest real estate company when it is spun off to the bank's shareholders in the sec-

ond half of the year. Swedbank has already spun off in similar fashion its unit, called Tornet, with property holdings worth more than SKr9bn. Handelsbanken's Närkebo has real estate worth SKr6.4bn.

The cost to the banks of these spin-offs is considerable. SE-Banken is pumping in SKr7bn of its own equity and SKr5bn in subordinated loans to capitalise Diligenta, reducing its own Tier One capital ratio from 9.6 per cent to 6.9 per cent. Even Handelsbanken - the least badly damaged by the loan loss debacle - is spending SKr3bn, or more than 11 per cent of its equity, to float Närkebo.

But once these operations are complete, the picture will be clearer for the banks to address their structural priorities in the post-crisis world. The question which emerges suggests strongly to many analysts that another round of

Expenses/assets



what had been a powerful export boom and the continued weakness of the domestic economy have led to two successive quarters of negative growth. Latest forecasts for the full year range as low as zero growth in 1996, with the government's

rationalisation is likely, in the form of mergers or takeovers. "We believe the pressures stemming from a sustained low-growth macro environment and increasing competition are pushing the financial sector towards more consolidation," Merrill Lynch advised its clients in a note earlier this year.

A flat domestic economy and a continued reluctance of Swedes to borrow to fuel spending has depressed the underlying interest earnings outlook for the banks. Although they are saving strongly, Swedes are increasingly looking for high-yielding savings products rather than leaving their money in bank deposits.

"If you look at 1995, eight of the 10 largest universal banks in the Nordic area saw profits before loan losses fall," says Mr Arne Mortenson, chief executive of Handelsbanken. "The general outlook is that it is difficult to increase revenues in the banking business in Sweden just now."

The scope for achieving profit growth through cost-cutting is, meanwhile, limited because of the relatively high efficiency of Swedish banks. In the past few years, they have cut staff numbers sharply - in Nordban-

ken's case by 20 per cent. Handelsbanken heads the European list of banks with a ratio of well under 1.5 per cent. SE-Banken is close behind with less than 2 per cent. The banks must therefore look elsewhere for growth potential. Handelsbanken has forged its own path by moving decisively into Finland and Norway, where it has bought up local outlets in pursuit of its ambition to be a full-service, pan-Nordic bank. SE-Banken also has international

Moves towards merger or takeover could be in the offing

ambitions, although is much more tightly focused on the corporate and investment-banking operations of its Enskilda unit.

Nordbanken and Swedbank, meanwhile, are firmly focused on the domestic retail and small- to medium-sized corporate markets. They argue in the words of one US ratings agency analyst, "really butting heads".

But to gain a decisive advantage over their competitors, strategic moves towards merger or takeover could well be in the offing. Not many expect a "mega-merger" of the type which saw the creation of Merita Bank in Finland, when that country's two biggest banks joined forces. But other moves could be on the cards.

Both Föreningsbanken, the smallest of the big five banks, and Stadsbyggetek, the recently de-mutualised mortgage house, are the main objects of speculation. Swedbank and Nordbanken are often seen as the likely respective suitors.

Swedbank already has the market-leading mortgage institution in the shape of Spinnh, but could strengthen its position in other markets through a link with Föreningsbanken. Nordbanken, meanwhile, could well be attracted to Stadsbyggetek, which would help it mount a much stronger mortgage challenge to its chief rival, Swedbank.

These are but two of the potential scenarios being canvassed at present. Others could well emerge as 1996 progresses.

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EQT Partners AB, Birger Jarlgatan 14, P O Box 16409, S-103 27 Stockholm, Sweden.
Phone: +46 8 440 53 00. Fax: +46 8 440 53 19.

PROFILE Securum

The doubts have subsided

Few companies can have started life in such inauspicious circumstances as Securum. Created in 1992 as a repository for SKr67bn in non-performing loans from Nordbanken - the hardest hit of the commercial banks in Sweden's worst banking crisis - Securum earned the dubious distinction of becoming the country's first "bad bank".

The portents looked even bleaker when it sank to a SKr12.9bn loss in its first six months. The figures intensified fears about the difficulties of unravelling a hotchpotch of problem credits which included a sheaf of properties in far-flung locations and stakes in a diverse array of Swedish industrial operations.

Three years on, the doubts have subsided. A combination of asset management, judicious sales and low interest rates has put Securum well ahead of its brief to realise the value of all its holdings within 15 years. Indeed, Mr Jan Kvarnström, Securum president, expects to wind down its administration to a small core by the middle of 1997. The Swedish state, which pumped in SKr2.6bn of capital when Securum was founded, had envisaged the equity being written off by the end of the 15 years. Now, however, the company expects to return about SKr1.1bn to the state.

"That is a very different outcome from delivering zero in 15 years, which was the initial target," says Mr Kvarnström. He attributes the success to Securum's practice of resisting fire sales and its habit of taking an active management role in the businesses it controls. By filling key management positions with its own appointees and closely monitoring performance, he believes Securum has "created value" throughout its portfolio.

While the concept of holding "work-out" companies to handle sour credits is not new, Mr Kvarnström believes this hands-on approach to asset recovery is unique. "The French and the Japanese have experienced recent banking crises and I'm a bit surprised they have not been more interested in studying our set-up," he says wryly.

Securum's assets are concentrated in three principal areas: shareholdings in industrial companies, constituting about 35 per cent of assets; Swedish real estate, representing 28 per cent; and international properties, with 19 per cent. The bulk of the international property estate portfolio is in the UK and the disposal programme has been completed. Mr Kvarnström suggests Securum will claw back the entire £200m equity injection made by the Swedish government at the outset.

Across Securum, the disposal process has quickened rapidly this year. Assets totalling about SKr1bn were sold in the first four months, against SKr18bn in three years up to 1996. Among them were a 6 per cent stake in Alzko Nobel, the Swedish-Dutch chemicals group; a 20.6 per cent stake in Esselte, the office equipment supplier; and Adium, an industrial development company. Securum retains a SKr40m assets stockpile, including a 13.2 per cent stake in Alzko and a wholly-owned Swedish real estate subsidiary, Castellum, which owns about 900 properties.

In December, Sweden's state Bank Support Authority, set up in 1992 to oversee the rescue of the banking system, merged Securum with Retrieva, the "bad bank" set up to unwind sour loans of SKr45bn taken out of Gota Bank. The deal prompted the restructuring of Castellum and Kungälv, Retrieva's main property arm. The former was reshaped into a pure portfolio property company and the other focused on real estate sales, a change that Mr Kvarnström says brought significant synergy effects.

The long-term aim is for Castellum to be spun off, possibly via a stock exchange listing, and for Kungälv to be gradually wound down. But Mr Kvarnström stresses this is some way off. Both companies are likely to form part of the

residual undivested operations when Securum's administration shrinks from its current 105 people to about 30 next year. The company offers little detail on how its "post-Securum" holdings will be managed, and by whom. Despite the widespread praise that has greeted Securum's progress, doubts persist about the long-term future of some of the less attractive segments of Securum's portfolio. Mr Björn Westberg, a former Securum executive and now head of investor relations at Nordbanken, says: "Yes, they can sell 90 per cent of the assets but the problem is what is left. What happens to the 10 per cent that are left over?" Mr Kvarnström insists that "niches" will be found for the holdings. For him, the important factor is to hand over the company in good financial shape.

To that end, he expects Securum to be debt-free this year, having paid off a SKr10bn internationally syndicated refinancing loan, of which SKr1bn is still outstanding. Its Swedish property holdings are on a stable footing and the state stands to recoup about 45 per cent of its outlay.

In the words of one senior Securum executive, it is an achievement no one thought remotely possible a few years ago.

Greg McIvor

The Financial Times plans to publish a Survey on

IMF/World Bank: World Economy & Finance

on Friday, September 27.

- To coincide with the IMF/World Bank meetings in Washington in 1996
- Special distribution to 6000 delegates at the meeting
- New emerging markets section.

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For further information please contact

Hannah Pursall in London
on +44 171 873 4167 or Fax +44 171 873 4296
or Tim Hart in the USA on +1 212 752 4500,
Liz Vaughan in Hong Kong on +852 2868 2863.

FT Surveys

PROFILE Nordbanken

Important symbol of recovery

If the recovery at Nordbanken continues to progress smoothly, it can only be a matter of time before the government decides to press the privatisation button again. Last autumn, it successfully sold a 84.5 per cent stake in Nordbanken to domestic and international investors, raising SKr6.7bn in the first stage of a strategy to return 100 per cent of the bank to the private sector.

It was an important symbol of a broader recovery in the Swedish financial system because Nordbanken was the biggest victim of Sweden's banking crisis and would have collapsed under a huge burden of bad loans in 1992 without a state bail-out. Since the partial privatisation, the bank's financial performance has continued to improve while its shares, undepressed by a healthy yield, have soared above SKr125 from a sale price (to institutions) of SKr52. Swedish individuals, who bought shares for a discounted SKr65 have done even better.

The state has built further Nordbanken privatisation proceeds into its budget plans, but has yet to set a timetable for the sale of its remaining 65.5 per cent holding. Given that this stake is today worth SKr17bn, most analysts believe it is more likely to be sold in two tranches than one. A strong possibility is that the next stage will be launched on the back of the bank's half-year figures, due in late August, although much will depend on the direction of Swedish interest rates at the time.

It would be too glib to say that Nordbanken has progressed from basket case to showpiece, but it has certainly achieved a turnaround that few would have thought possible three years ago.

This owes much to a general upturn in the Swedish banking and corporate sector that has seen credit losses fall to more normal levels, as well as to vigorous cost-cutting. But there is no doubt that the

rebound would not have been as quick or as spectacular without extensive state support along the way - in particular the setting up of "bad bank" Securum. Nordbanken today is one of Sweden's four largest banks, with a customer base comprising 3.7m private individuals, 140,000 small and medium-sized companies and more than 30,000 organisations. Its market shares have been bolstered by its 1993 merger with Gota

it already has, rather than grow its client base dramatically. Two areas where it believes it has scope for growth are fund management and mortgages. It also aims very specifically to be the "best bank for small and medium-sized customers." One area to which the bank has given a great deal of attention is its distribution base. On top of 300 Nordbanken branches, it has a collaboration with the Swedish post office, which

will pay lower transaction costs and have additional opportunities to market its products under the "Postbanken" name. Like its fellow Swedish banks, Nordbanken has had to endure tough market conditions, characterised by fierce competition, narrow margins and weak loan demand. Yet despite these difficulties, few would quibble with the quality of its 1995 figures. Operating profits were up 23 per cent at SKr5.9bn. Credit losses were down 42 per cent to SKr1.27bn, or just 0.6 per cent of lending. It was a long way from the dark days of 1992 when the bank suffered credit losses of SKr19.3bn, or 7 per cent of lending. Return on equity was 23.7 per cent.

The performance enabled the bank to pay SKr1.6bn in dividends, or 38 per cent of net profits. In line with its commitment to pay a dividend of between 30 and 50 per cent of profits to avoid an excessive build-up of capital. There are still those who would argue that the bank is overcapitalised - with a year-end capital adequacy ratio of 14.4 per cent - but international credit rating agencies continue to view it cautiously following its problems earlier in the decade.

Progress continued in the first quarter of this year, with operating profits rising 30 per cent to SKr1.56bn. The figures were helped by a further reduction in loan losses and lower costs, although the scope for substantial further improvements in both categories is now decreasing. That is why the bank was particularly encouraged by evidence of increased corporate borrowing after a long period of subdued demand. If this trend is shown to have continued in the second quarter, it will make it all the more tempting for the government to proceed with the next stage of the privatisation.

Christopher Brown-Humes



Nordbanken: one of Sweden's four largest banks. Picture: Tony Anderson

Bank, the other main casualty of the Swedish banking crisis. Nordbanken says it intends to keep a tight focus on the Swedish market and it rules out expansion even into neighbouring markets such as Norway and Finland, where two of its rivals, Skandinaviska Enskilda Banken and Svenska Handelsbanken, are becoming more active. A key aim is to do more business with the customers

has a further 1,300 outlets, and a fast-growing telephone banking system which boasts 220,000 customers. Nordbanken believes its collaboration with Sweden Post gives it plenty to go for because more than 75 per cent of the 500,000 people a day who use the post office are not Nordbanken customers. The bank says a recent renegotiation of its post office agreement will provide increased benefits because it

Niche banks: by Hugh Carnegie

Low cost base is the key

Many Swedes have responded with enthusiasm to the promise of high returns offered by the new operators

Like the profusion of mushrooms which sprout in Swedish forests during the autumn, a crop of new "niche" banks has sprung up in the country in the past 18 months. Fertilised by deregulation, which has allowed all kinds of institutions to gain a banking licence, and the opportunities presented by new technology, a number of insurance companies and retailers have opened specialist banking services aimed both at exploiting their own existing customer bases and at raiding the clients of the traditional commercial banks.

The new banking operators include the three insurers, Skandia, Trygg-Hansa and Wasa, the recently de-mutualised mortgage institution Stadshypotek and the Swedish-based worldwide furniture retailer Ikea, which has started a niche bank called Ikonobank. Typically, these operators have set up shop combining premium interest rates on deposits with specialised credit and payment services tailored to their own core businesses - such as mortgage loans and insurance-based savings policies.

The key to their operations is their low cost base achieved by working via the telephone and confining their services to electronic transactions, thus keeping staff and fixed costs to a minimum. Apparently undeterred - perhaps even encouraged - by conducting bank business over the telephone, many Swedes have responded with enthusiasm to the promise of high returns offered by the new participants. Deposit interest rates at the telephone banks are still as much as 2.5 percentage points higher than those offered by the traditional banks, depending on the class and size of saving.

By April this year, the new operators had taken about a 3 per cent share of the SKr406bn market for household deposits

in Sweden. The established banks have tended to downplay the impact of the newcomers, arguing that the market share of the niche banks as a proportion of the total retail banking market is very small and already shows some signs of planing out.

But the old banks have responded by themselves opening in-house telephone banks offering premium deposit interest rates in an attempt to blunt the new competition.

The newcomers, meanwhile, argue that they are pioneering the future of retail private

months ago by Skandia, the country's leading insurance group. It now offers a wide range of services from the core savings accounts, through car finance, mortgage loans and asset management to automatic premium payments schemes for Skandia's insurance policy holders.

"They call us a niche bank, but we are only a niche bank in the sense that we don't do corporate banking. We do almost everything for the private client," says Mr Göran Lenkel, chief executive. Skandia Bank has grown

needed an Internet service. The new banks do not all share the same strategies, however. Skandia Bank, for example, is an additional service within the Skandia group, rather than an integrated part of the whole. Mr Lenkel describes it as "an island" which can defend, exploit and expand Skandia's customer base - but which will not be used as a tool to lock customers into Skandia by cross-subsidisation between insurance and banking services. By contrast, Trygg-Banken,

Swedish niche banks - market share April 1996

	Market total	Skandia Banken	Wasa Banken	Trygg-Banken	Stadshypotek	Ikonobanken
Lending to households*	SKr 170 bn	2.6 bn	288 m	47 m	-	827 m
%	100	1.52	0.17	0.03	-	0.31
Household deposits	SKr 405 bn	4.5 bn	1.8 bn	553 m	1.9 bn	739 m
%	100	1.12	0.46	0.14	0.48	0.18

*including mortgages
Source: Statistics Department



According to Datamonitor, 11 per cent of all Sweden's banking customers use telephone services

banking services. According to Datamonitor, Sweden now has the highest telephone penetration in Europe after Finland, with 11 per cent of all banking customers using telephone services. The biggest of the new banks is Skandia Bank, started 18

to 90,000 customers, a total that exceeds its original target for the first three years of operations. Half its clients are existing Skandia policy holders, the rest it has attracted from elsewhere.

The bank employs a total of 210 employees to service these customers. Its deposits totalled SKr3bn by April, while lending had reached more than SKr3bn. Virtually all business is conducted over the telephone - and 70 per cent of calls are handled on a self-service basis. In other words, customers calling in complete their inquiry or transaction using the telephone's touch-tone facilities.

"We aim to get this proportion up to 85 per cent," says Mr Lenkel. "The customers are willing to do it because they know it is the reason they get a better deal from us."

Exploiting electronic technology is vital to the low-cost advantage of the niche bank operators. Skandia Bank will later this year introduce interactive services for customers using their home PCs - linked via modems to the bank's own computer network.

The banks are also studying the potential for servicing clients via the Internet. Osigota Bank, the smallest of the universal banks, has already pio-

the bank opened six months ago by Trygg-Hansa, is designed as a hub within the group which will be a vital link in Trygg's development of a full range of financial services. Trygg-Banken offers full payments services - traditionally a loss-making side of banking - with the intention of becoming a "one stop shop" for customers, serving everything from salary and household payments to savings and insurance products.

Mr Yngve Andersson, head of Trygg-Banken, acknowledges this is initially expensive, but says the pay-off will come through inducing customer loyalty. "The costs of taking full-service customers on board is five times the cost of deposit-only customers. But we feel these customers will not leave us. Loyalty will be high. We are building for the future," says Mr Andersson. Whatever the differences in approach, the niche operators have one thing in common. They believe their "distance" - or "do-it-yourself" - banking system, with simplified, technology-based services and conditions, is the way of the future. If they are right, they surely foreshadow further painful restructuring for the traditional, local branch-based retail banks.

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4 SWEDISH BANKING

PROFILE Stadshypotek

Ownership issue is significant

No one is quite sure whether Stadshypotek AB, Sweden's largest mortgage bank with a 30 per cent share of the domestic market, really is a state-controlled bank - but the government assumes that it is and announced on June 11 that it plans to sell the 34 per cent of the bank's shares which it believes it owns in order to help fill a hole in the budget.

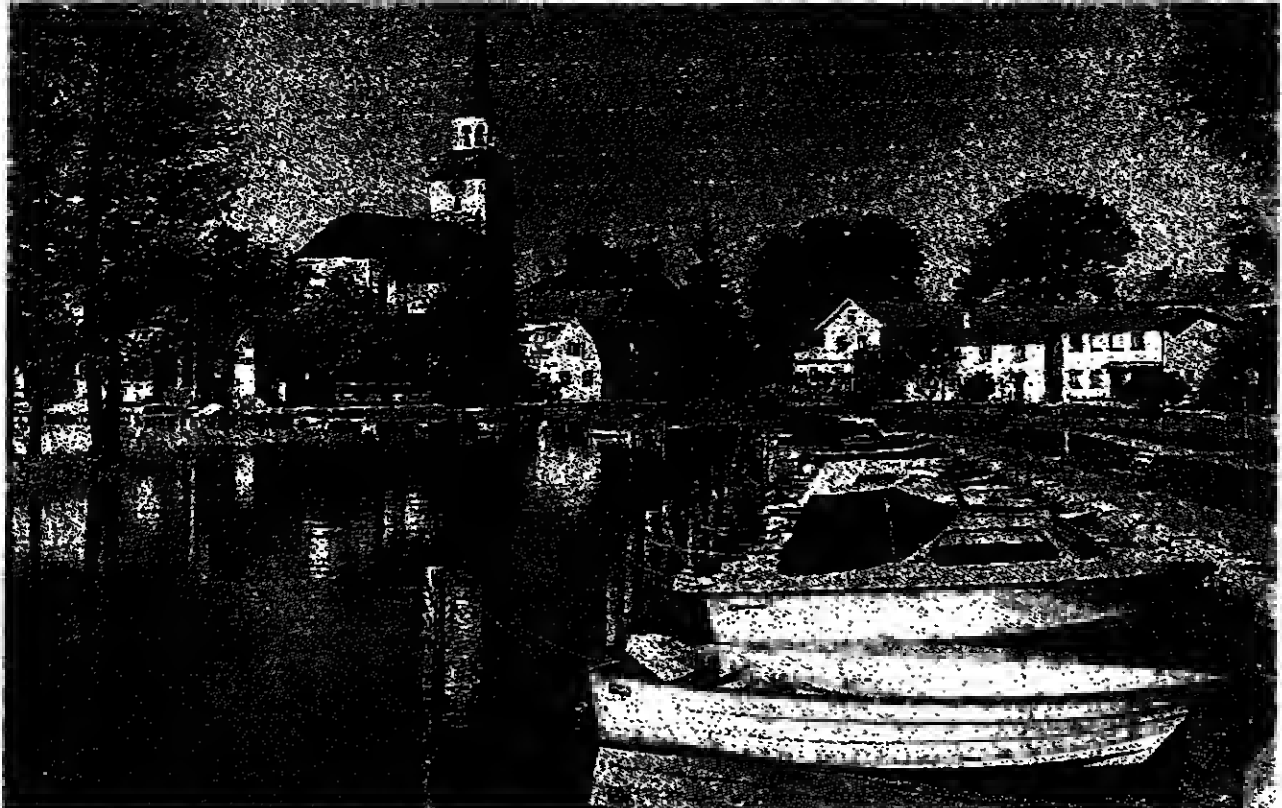
"The Swedish credit market is on the threshold of major structural changes," wrote Mr Lars Wohlin, managing director until his retirement in May, in the 1995 annual report, a prescient remark in the light of recent developments.

Stadshypotek, which became a public company in 1993 and obtained a stock exchange listing in 1994, is a sizeable institution. It has assets of Skr21.4bn and equity capital of Skr17.6bn; a core capital ratio of 10.9 per cent; and the Skr3.05bn pre-tax profit in 1995 gave a return on equity of 13.3 per cent.

How the ownership of Stadshypotek is finally settled, therefore, is a matter of some significance for the future of the Swedish banking structure.

Mr Hans Dahlgren, Nordbanken's chief executive, has made it no secret that he has an acquisitive eye on the mortgage bank. If he were to get his way, it would create a bank which would loom very large indeed on the domestic scene. But there are many other possible solutions and the government has given no indication of how it will dispose of the shares if it seems odd that there should be any doubt about who owns Stadshypotek, the explanation lies in the peculiarly Swedish character of the institution from which the bank in its present guise has emerged.

It was founded in 1908 as an association of borrowers, a "mortgage mutual". Until 1993, when it was converted into a public company, it consisted of 20 regional associations, responsible for lending, and a central unit,



Picturesque homes on Lake Mälaren. The end to subsidised mortgages caused Sweden's market for new housing to collapse. PHOTO: P&P

Konungriktet Sveriges Stadshypotekskassa (Urban Mortgage Bank - UBM), responsible for funding by bond issues. But although it was a self-owning association of borrowers for its first 84 years, it became, so to speak, the government's poodle.

Firstly, in 1909, it gained certain tax privileges, a fact which in 1993 led the government to argue that it had a right to claim ownership of half (at that point) of the equity, with the borrowers entitled to the rest.

Secondly, in the regulated post-war banking world it was, as Mr Christer Bergquist, deputy managing director, put it, "not so much a loan-generating as a loan service company." Mortgage loans were subsidised. The commercial banks automatically referred customers to the mortgage associations. The insurance companies were legally obliged to buy the mortgage

bonds sold by UBM and its colleagues. Stadshypotek had a 40 per cent share of this market which, however, was radically changed when the government stopped subsidising loans in the early 1990s. Stadshypotek had to change equally radically. It was converted

The commercial banks no longer send customers to Stadshypotek

into a public company in 1993, when UBM became sole shareholder. In 1994, UBM issued half the existing equity to the borrowers and then made a new share issue and obtained a stock exchange listing. Ownership was spread. The outcome was to leave UBM with 34 per cent and foreigners currently own about 17 per cent.

Mr Bergquist says that the government's statement on June 11 that it intended to sell UBM's shares and to use the proceeds to shore up the budget was the first time that a government had actually said: "This money is ours." It remains to be seen whether borrowers will emerge to challenge the government's assumption in the courts.

In the meantime, Stadshypotek has become a competitor in a highly competitive market. The commercial banks no longer send customers over to Stadshypotek. They have their own mortgage finance subsidiaries, which are exploiting their extensive branch networks to win new business.

Mr Bergquist says that the Stadshypotek thinks it has done well to maintain such a substantial market share against fierce competition. He attributes its success to the mortgage bank's cost

efficiency. Nevertheless, Stadshypotek is shrinking.

The end to subsidised mortgages caused the market for new housing to collapse. In 1992 and 1993 only about 5,000 new houses or apartments were built a year and although the figure rose to about 12,000 in 1995, this is far below what Mr Bergquist regards as normal - about 40,000 a year.

At the moment, therefore, mortgage repayments exceed new lending. Stadshypotek's loan portfolio has shrunk by about Skr25bn to Skr296bn over the past two years. But after two years in the red in 1992 and 1993, when the collapse of the housing market and the finance industry crisis caused loan losses to soar, Stadshypotek made a comfortable profit in 1995 - a first-quarter operating profit this year of Skr22bn points to another satisfactory year in 1996.

Hilary Barnes

PROFILE Enskilda

A prominent role

Are regional merchant banks inevitably going to struggle in a world increasingly dominated by big US and European investment houses with capital strength and global reach?

If the answer is yes, you might think Enskilda, the international merchant banking arm of Skandinaviska Enskilda Banken, to be a prime merger candidate in the wave of consolidation sweeping through the industry. If no, you could point to the company's considerable strengths as an argument that it can continue to operate both profitably and independently.

Ask Mr Jacob Wallenberg, Enskilda's chief operating officer, how he sees the situation and he chooses his words carefully: "We don't have to go with someone else. It's not a foregone conclusion, but it's not totally excluded," he says.

Should it come to a tie-up, Enskilda can at least talk from a stronger position than it had three or four years ago. Then, not only was the parent bank burdened by huge bad loans that brought it within a whisker of a state bail-out, but the big international merchant banking houses, such as Goldman Sachs, Merrill Lynch and Morgan Stanley, started to seek business aggressively in the Nordic countries.

Operating in this more competitive environment has forced Enskilda to sharpen up its act and market itself more aggressively. This has brought a recovery in its fortunes, and it is now meeting a target of producing a return on equity of more than 15 per cent.

Enskilda says its advantages include a strong regional base, long-term client relationships, healthy market shares and high rankings in a wide number of different areas. For example, it is number 14 worldwide in foreign exchange and number three in European cash management. In mergers and acquisitions advice, it

dominates the Swedish domestic market, and was ranked number 10 in Europe last year.

These achievements make Enskilda the leading Nordic-based international investment bank. Outside the Nordic region, its office network spans London, New York, Paris, Frankfurt, Tokyo, Hong Kong and Singapore. London, with 400 staff, is by far the most important of the non-Nordic offices, and is seen by Mr Wallenberg as "a funnel of know-how and ingenuity into the Nordic region."

Amplifying the global coverage, the bank has an alliance with Blackstone in the US, covering advisory services in North American-Nordic mergers and acquisitions.

If Enskilda did not have this reach, it is arguable whether it would have had such a prominent role in the recent initial public offering of Scania, the Swedish truck group. In one of the most prestigious offerings to come out of Sweden in many years, Enskilda was appointed joint global co-ordinator alongside SBC Warburg and Morgan Stanley. Had there been doubts about its placing power outside the Nordic region, it might have had a more limited role.

"Two years ago it would not have been a foregone conclusion that Enskilda would have been a global co-ordinator of the Scania offering," says Mr Peter O'Kane, director of Enskilda Securities in London. He says the mandate shows the group is marketing itself more successfully to issuers, and getting the message across that it has a good distribution base to international institutions.

Other big deals in which the group has been involved include last year's merger of Pharmacia and Djöfn, the drugs group, and the purchase of part of the research and development activities of the UK group Fisons by Astra, the fast-growing Swedish

pharmaceuticals group. Inevitably, Enskilda is accused of acquiring a lot of its business simply because of the historical links between the bank and the Wallenberg family, Europe's pre-eminent industrial dynasty.

But Jacob Wallenberg (son of Peter Wallenberg, the current patriarch of the empire) says: "This is one of the biggest fallacies around. Our problem is that we have to work harder to get Wallenberg business than to get other clients." He says the bank has a lower market share of deals involving Wallenberg companies than other Swedish companies.

Mr Wallenberg says he is most proud of the fact that the group's research team is now ranked second in the Nordic region (after Alfred Berg). This is because it was hit by a large number of research-team defections a few years ago. But he emphasises that the group cannot be all things to all people. It has deliberately avoided involvement in some areas, such as Eurobonds.

The bank has clearly indicated its wider Nordic ambitions by setting up sizeable offices in Oslo and Helsinki in the past two years. In its first year, it gained 8 per cent of equities trading in Helsinki and it is number one in fixed income.

In the longer term, Mr Wallenberg believes the group's home base could evolve to "Baltic" from "Nordic" as markets develop in the Baltic states, northern Russia and eastern Europe. He also believes the group has significant opportunities in south-east Asia, where many of its corporate clients are active. The ambition, says Mr Wallenberg, is to be "significantly larger in a Nordic context and significantly stronger in certain selective products outside the Nordic region."

That also means the bank will reduce its emphasis in some areas, although it is not saying yet what they will be.

Christopher Brown-Humes



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The insurance sector by Hugh Carnegie

Period of transformation

There is an atmosphere of almost frantic activity as various participants seek to position themselves for the future

For Sweden's insurers - like the country's banks - the 1990s have proved to be a difficult, sometimes traumatic period.

As recently as last year, the two biggest groups, Skandia and Trygg-Hansa, were both still in the throes of overcoming structural problems caused by loss-making ventures into the US.

Meanwhile, at home, the insurance sector is facing a challenging and fast-changing operating environment. Deregulation and new conditions in savings markets have opened up enticing growth opportunities, particularly in the life business.

"The whole market is in a state of rapid transformation with new products being created, rules for insurance companies changing and a new national pension scheme being introduced," commented Goldman Sachs in a review of the sector earlier this year.

- Among the changes:
 - The allowance of unit-linked insurance;
 - Liberalisation of banking laws to allow insurers to open their own deposit-taking banking operations;
 - Cuts in Sweden's hitherto all-embracing welfare system which have boosted demand for private pension and other long-term savings products;
 - The state pension, or ATP, system is due to be reformed next year in a way likely to result in a role for the private sector in ATP fund management;
 - Next year, legislation is set to allow traditional life assurance operations to be run as for-profit operations.

These changes have blurred the lines between the traditional banking and insurance sectors - opening up the insurers to competition from the banks no less than the insurers now have the chance to compete directly in banking services previously barred to them.

Insurers also have to bear in mind the potential threat of newcomers from abroad - especially with the looming advent of European monetary union, which is likely to render all kinds of financial services more transparent.

The result is an atmosphere of almost frantic activity as various participants seek to position themselves for the future. The insurance companies have been busily remodelling to ensure they have the right structure to cope with the challenges facing them.

The biggest Swedish group - with premium income of SKr22bn and operating profits



Hospital care for the elderly: cuts in the welfare system have boosted demand for insurance. Picture: P. J. P. / AP



Björn Wolrath: echoed the frustrations of many in the sector of SKr550m last year - is Skandia.

"Skandia" only finally put behind it an expensive foray into reinsurance in the US when it wrote off SKr2bn in 1995 to complete the sale of its US reinsurance vehicle SARC. But Skandia remains the only Swedish insurer with significant - international - operations: 75 per cent of its business is outside Sweden. It considers the Nordic region - not just Sweden - as its home market, with life and non-life operations in Norway, Denmark and Finland. Its AFS life and savings unit has business spread around the world, including in the US and the UK, with unit-linked and life premium income of more than SKr22bn in 1995.

By contrast, Trygg-Hansa has become almost completely Sweden-oriented since it retreated last year from a highly costly venture into the

US market through Home Holdings - a venture since hived off to Zurich Insurance.

But Trygg has been busily restructuring to meet the future, de-normalising its life business and merging the life and non-life operations into one streamlined organisation. Likewise Wasa - having seen off a takeover attempt by Trygg this year - has arranged the buy-out of its life policy holders by its non-life organisation to achieve a similar unified structure.

For all the insurers, the fundamental feature of their sector today is the contrast between the profitable, but mature non-life operations and the fast-developing life and savings operations where the real growth potential lies.

The former, in which the mutuals Länsförsäkringar and Folkam are the main players alongside Skandia, Trygg and Wasa, accounts for total annual premiums of SKr22bn, split about 60-40 commercial-personal.

The life and pension insurance sector has total premiums of some SKr55bn a year and is expanding rapidly. Mr Björn Wolrath, chief executive of Skandia, echoed the frustrations of many in the sector over the uncertainty over tax and other rules governing new savings products.

"Instead of long-term, stable rules, each year we are handed down new changes to the web of rules and regulations and this is having an adverse impact," Mr Wolrath complained.

But still, growth is evident. Some estimates suggest the anticipated ATP changes will add SKr15bn to the private occupational pension business. Foreign endowment insurance doubled in 1994 to an estimated

premium value of SKr10bn.

The insurance companies - and their bank competitors - are constantly looking for new products in areas such as pensions, health insurance and income replacement insurance to fill the gaps increasingly subject to the effects of budget-driven cuts in the government welfare programme.

One of Skandia's latest ideas is called "competence" insurance. In the age of high unemployment and low job security, the idea of "competence" insurance is to build up savings to be deployed to cover retraining costs for workers to enhance their job skills.

PROFILE Trygg-Hansa

Rushing to re-model itself

Mr Lars Thunell, chief executive of Trygg-Hansa, must have created some kind of speed record for a failed takeover bid when he attempted to swallow rival insurer Wasa early last month.

On Tuesday May 7, he launched a two-pronged move on Wasa by proposing a SKr1.5bn bid to buy in Wasa's non-life policy holders, while offering a merger with Wasa's life assurance operations. The deal would have created a group with more than 30 per cent market share in Sweden - compared with Trygg's 20 per cent - and a real challenger to Skandia market leadership.

Wasa executives reacted with indignation to the Trygg bid, which they dismissed as an opportunist grab which was, in reality, worth less than one third of the price offered. Representatives of Wasa policyholders agreed and on Thursday May 9 voted unanimously to reject the Trygg offer, which duly fell.

If there was a note of irritated impatience in Mr Thunell's abortive bid for Wasa, it stemmed from Trygg's anxiety to catch up ground lost during a series of disastrous investments in the first half of the 1990s. Under Mr Thunell, who was appointed in late 1994, the group has been rushing to re-model itself to meet the increasing competition in the financial sector.

Trygg's trail of woes began with ill-fated forays into banking and credit insurance in Sweden just before the credit-loss crisis of the early

1990s. It took control of Gota AB, parent of Gota Bank, and Svenska Kredit only to see them collapse in 1992 under the weight of loan losses. And in 1991 it bought into Home Holdings, one of the biggest property and casualty insurance companies in the US, only to see Home fall into heavy losses. These investments cost the company accumulated losses of SKr11bn.

Mr Thunell was well suited to clear up the resulting debris: his previous job was as head of Securum, the "bad bank" set up by the government to unwind the bad loans of Nordbanken.

Within weeks of taking over at Trygg he arranged a deal to exit from Home by heading it off to Zurich Insurance. Then he set about rebuilding Trygg out of the ruins of his failed ambitions.

"The company basically lost half of its equity through these problems and didn't really earn anything during the period," he says. "But throughout, the basic core Swedish insurance business was profitable. So after sorting out the problems we looked at what we were good at, to focus on our strengths, and the core was the Swedish business."

To the 18 months that has passed since the deal on Home with Zurich was struck, Trygg has recovered its poise. In 1995, the group swung from a SKr3.66bn operating loss in 1994 to a profit of SKr2.75bn. Premium income declined from SKr7.2bn to SKr6.6bn, but this was partly because it ceased writing new

reinsurance business. Underwriting losses fell from SKr1.3bn to SKr550m.

Boosted by this improvement in performance - and in balance sheet strength - Mr Thunell moved to restructure Trygg's complex organisation by merging the Trygg-Hansa Life operations, hitherto a mutual company, into the Trygg-Hansa parent through a SKr1.15bn takeover of the former by the latter.

The purpose was to simplify the organisation, gain "literally billions of kronor"

in lower administrative costs and allow Trygg to take maximum advantage of deregulation which has opened up new savings markets on the life side of the business. "It means we are one company - one organisation - and it means we can position ourselves for the future," says Mr Thunell. "Life is where we are going to have growth. The non-life sector is mature and is not going to grow very much."

Trygg's intention is to be a "one-stop shop" for financial services. Its advertising slogans proclaim it to be the "supermarket of life". It is also experimenting with technology-driven sales outlets such as the Internet and interactive video kiosks. A key part of its new services is Trygg-Banken which, unlike other newly-opened "niche" banks offers payments services as well as savings products.

Mr Thunell's agenda is ambitious. But he knows the competitive pressures are such that organic growth alone will not ensure Trygg's future. Hence his unsuccessful grab for Wasa. "These days, you have three choices," he says. "To link up with another Nordic insurer, or with a Swedish bank or become, eventually, a branch of one of the big international insurers."

Clearly, his intentions lie in the first option. The move on Wasa may have failed, but it is unlikely to be the last strategic effort by Mr Thunell.



Thunell: set about rebuilding Trygg from the ruins of his failed ambitions

Hugh Carnegie

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March 1996

ASTRA
ASTRA AB has listed its A and B Shares on the New York Stock Exchange as from Thursday, May 23, 1996. The N.Y.S.E. symbol is A.
The undersigned acted as co-financial adviser to ASTRA.
Enskilda Securities
Skandinaviska Enskilda Banken
May 1996

ASTRA
ASTRA AB has acquired The Longborough Research and Development facilities as well as a number of product patents and rights from Fisons plc.
The undersigned acted as exclusive financial adviser to ASTRA.
Enskilda Securities
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June 1995

ASSA ABLOY has acquired **ESSEX Holdings, Inc.** for a consideration of US\$ 170,000,000.
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Enskilda Securities
Skandinaviska Enskilda Banken
January 1996

INCENTIVE
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Enskilda
March 1996

STORA
Stora Finance Stockholm AB
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US\$ 1,250,000,000 Multi-Currency Revolving Credit Facility
The undersigned acted as arranger.
Enskilda
November 1995

SPILLIC
ISK 1,788,000,000, US\$ 9,561,750, GBP 4,472,113, FRF 41,557,974 and DEM 18,314,097
Construction Loan Facility for the purpose of financing the construction of Hvalfordur Tunnel, a 5.3 kilometre long toll road tunnel in Iceland.
The undersigned acted as an arranger.
Enskilda
February 1996



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6 SWEDISH BANKING

Capital markets: by Hugh Carnegie

Two dynamic exchanges

Since 1992 the share of foreign ownership in the market capitalisation of the stock exchange has jumped from 12 per cent to 30 per cent

In the Stockholm bourse and the OM Stockholm options and derivatives market, Sweden has two of Europe's most dynamic exchanges.

Both are run as far-profit, publicly-listed operations, and both are leaning heavily on technology to secure an expanding niche in today's highly international and increasingly deregulated capital markets. They run electronic trading - neither any longer has a trading floor - and have extended their reach beyond Sweden in the bid for growth.

In future, their fates may well be even more entwined than they are today. OM Group, founded by Mr Olof Stenhammar, one of Sweden's leading entrepreneurs, is the biggest shareholder in the Stock Exchange with a 21 per cent stake. Both organisations speculate that in time co-operation between them is likely to deepen.

The Stockholm Stock Exchange, still based in the quaint old wood-panelled house in the Old City opposite the Royal Palace, has undergone sweeping changes in the 1990s. Apart from its own shift to quoted status and its move to electronic trading, the biggest transformation prompted by deregulation has been the surge of foreign investment in Swedish equities.

Since 1992 - the last year of any restrictions on foreign investment - the share of foreign ownership in the market capitalisation of the stock exchange has jumped from 12 per cent to 30 per cent. In the same period, market capitalisation has more than doubled to SKr1,100bn at the end of last year. Several leading Swedish companies are now more than half-owned by foreign investors.

The arrival of the foreigners



Stockholm Stock Exchange: sweeping changes

Stockholm Stock Exchange - key ratios

	1991	1992	1993	1994	1995
Share turnover: SKr (bn)	131	172	309	639	895
Volume of shares traded (m)	1,163	2,148	4,944	6,060	6,981
Market capitalisation (SKr bn)	556	662	892	977	1,100
Number of companies quoted	230	206	206	228	223
Other exchange trading (SKr bn)	8	17	23	43	74
Stock Exchange revenues (SKr bn)	155	148	158	176	182
Average Number of employees	72	67	67	55	56

* at December 31 1995 ** Excluding international trading



Olof Stenhammar: one of Sweden's leading entrepreneurs

has been a big factor in the explosion in volumes from an average at the start of the decade of SKr500m a day to SKr1bn today - more than one third is accounted for by overseas investors. "In the last three years, foreign investors have pumped SKr100bn into Swedish stocks," says Mr Carl Johan Högbom, the exchange's products and trading chief. "In the same time we have had a total of SKr90bn in new issues - so you can see how we depend on foreigners now."

But the exchange has not been content simply to watch the foreign money flow in. At the same time, competition

includes the sister OMLX exchange in London and is also the world's leading supplier of electronic trading systems to other exchanges around the world.

But the exchanges have been driving forces in the OM story. Their network is still expanding as OM Stockholm now has links with the Oslo bourse, the Finnish options exchange and is operating the Norwegian-Swedish and Finnish electricity exchanges, which have opened following deregulation of energy markets in the Nordic region.

The average number of contracts traded per day on the OM exchanges rose to 176,000 in the first three months of this year - a 30 per cent rise over the same period last year. OMLX accounts for about 10 per cent of the turnover.

Mr Per Larsson, who this year took over as chief executive from Mr Stenhammar, says the strategy is to be the main marketplace for trade in Nordic instruments - with OMLX acting, like the stock exchange remote members, as the conduit for international investors to the Nordic markets rather than as direct competition to, for example, the Liffe exchange in London.

But Mr Larsson does envisage expanding the scope of instruments traded. "We use the term universal marketplace," he says. "That means we think that in future there will be no such thing as specific exchanges for different types of instruments."

In Sweden he sees an advantage in this respect. "We have a regulatory regime where we can do all financial services under one authority - unlike in the US where you have different authorities supervising different markets."

But the vision of the "universal marketplace" raises the question of the relationship between OM and the Stockholm stock exchange. "OM is potentially our most dangerous competitor," declares Mr Högbom. "They could start trading in equities tomorrow. But then, so could we start trading futures and derivatives."

Equally, the two operations could move towards merger. But neither side sees this happening in a hurry. "Possibly certain operational parts of the exchanges could merge," says Mr Larsson. "But we are a long way from a merger of the overall operations."

Preparing for Emu: by Hugh Carnegie

Position is far from clear

The planning takes into account two scenarios: One, that Emu will go ahead with Sweden included, the other that Emu will go ahead, but initially without Sweden

"Even for an institution with roots that date back to 1688, this is a big event," laughed Mr Stefan Ingves, deputy governor of the Riksbank - the world's oldest central bank.

The event he was referring to was the advent of European monetary union. Uncertainty may still surround the project, from the technical issue of which countries will qualify to enter, to the political issue of which countries will want to enter. But the Riksbank and Sweden's commercial banks, like their counterparts elsewhere in Europe, are assuming for planning purposes at least that Emu will begin on schedule in 1999.

Sweden's own position on Emu is far from clear. First, it is by no means certain that Sweden will be accepted as a member of the EMU.

The Social Democratic government has declared that the Riksdag will take the final decision on Swedish membership. Mr Göran Persson, the prime minister, is in favour of joining. But there is strong opposition within parliament, the SDP and in the country at large. With a general election due in late 1998, Mr Persson may find it easier to postpone the issue until after the election - in other words, delay Swedish entry until a projected second round of Emu admission early in the next century.

A complication could also arise over the likely need for a change in the constitution. The complex rules surrounding a change in the constitution offer Emu's opponents a greater chance of putting the issue to a referendum. They only need to muster a one-third blocking vote in the Riksdag against a proposed constitutional change to force a national vote on the issue. Given the narrow margin by

which Sweden voted to join the European Union in 1994 and the deep split that vote caused in SDP ranks, Mr Persson will try everything to avoid a referendum - including, quite possibly, postponing the whole issue.

However, the Riksbank and the commercial banks have privately made the firm judgment that at least a core of countries will launch Emu at the appointed date - and they must be prepared.

Although it is largely independent of the government, in line with Emu demands, some features need to be changed in the Riksbank's structures. The bank is under the authority of parliament - not the ministry of finance. But it has members of parliament on its board - which may not be permissible under the Emu regime. Legislation will also be required to isolate the governor of the bank from the threat of dismissal by the government.

The Riksbank and the commercial banks are meanwhile stepping up preparations on a range of matters from planning a new payments system to cope with the advent of the Euro to the banks' internal strategies for dealing with the new competitive pressures.

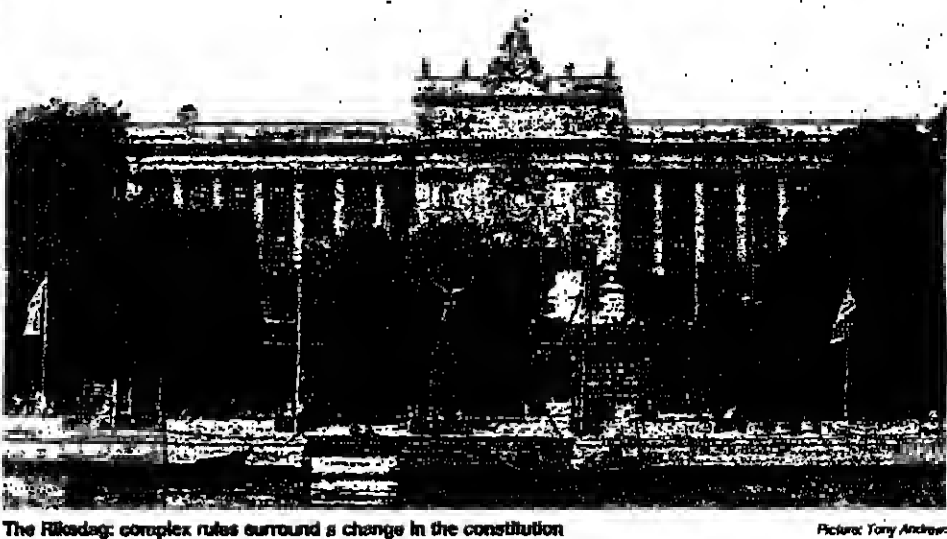
"Discussions are going on as in all other European countries," says Mr Ingves. "In certain respects, the whole process is a little easier in smaller economies like Sweden because we have reached a high level of computerisation and we do not have so many institutions."



Göran Persson: he may postpone the issue until after the election

The commercial banks estimate that the process could cost up to SKr1bn each, with about 50 per cent of the cost accounted for by developing new software systems, 20 per cent by staff training and the rest by hardware costs. The banking association has set up a steering group to co-ordinate work on building a common payments system and other technical and legal aspects of Emu. "Preparing for Emu is like taking out fire insurance," says Mr Per Jäderfors, the executive in overall charge of Emu planning at Skandinaviska Enskilda Banken. "We have to do it now, even if we do not know exactly what is going to happen. It will be too late to do anything after the fire starts burning."

The planning has to take into account two scenarios: One, that Emu will go ahead with Sweden included, the other that Emu will go ahead, but initially without Sweden.



The Riksdag: complex rules surround a change in the constitution

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The supervisory regime: by Hilary Barnes

Learning from the crisis

Supervision has shifted from being institution-oriented to being function-oriented

"Worried? I am always worried - but I am not terrified," was how Mr Claes Norgren, director-general of the Swedish Financial Supervisory Authority, cheerfully defined his present state of mind.

He became director-general in 1993, when the calamity which overtook the Swedish financial markets had already culminated and which is by now, he says, "past history." It is history, however, from which there has been learning. "When I came to this position I saw my job as to take

stock, look at what happened, draw conclusions and adapt the organisation." Much has been done since. Although Mr Norgren does not express it in so many words, it is clear that the supervisors went into the decline in the 1990s. On-site inspection had virtually ceased.

"Policy was that on-site inspection was meaningless. It was all so complex that you couldn't understand it anyway," says Mr Norgren. There was also a lack of attention to risk management "which was quite logical when inflation paid all the debts."

"The culture of inflation had also infected the banks themselves, where the attitude was: 'Why care about loan losses when inflation would take care of them,'" according to

Mr Norgren. In fact, because the financial markets underwent an enormous development as the markets were deregulated in the 1980s, there was a clear need for a focus on risk management.

One of the lessons of the banking crisis, says Mr Norgren, was "that there were too many spots in the Swedish markets, and especially at some banks, where risk controls were weak and below standard."

Restoring on-site inspection has been an important part of Mr Norgren's programme. He sees it as having at least two useful effects. It is good for market discipline, working in the same way as the sight of a policeman by the roadside has a good effect on traffic discipline. And it gives the supervi-

sors a feeling for what is happening in the financial markets.

But importance has been attached to ensuring that the inspectors know what they are doing and will not succumb to the feeling that it is all so complicated that it is beyond them. The Supervisory Authority's latest annual report says that supervision has shifted from being institution-oriented to being function-oriented.

Inspection teams have been formed consisting of individuals who specialise in the types of risk that arise in the activities conducted by each type of institution.

As part of a programme to develop and improve the methodology on inspections, new guidelines have been prepared and last year a supervision

handbook was issued, providing guidelines and check lists for inspections, and explaining how an inspection should be planned, performed and processed.

The main objectives of the inspections is to ensure that the internal control and risk management procedures of the individual banks and other institutions - Sweden's super-

visors cover the whole gamut of financial service institutions - are in order. If the quality of controls is regarded as unsatisfactory, the supervisors discuss the issue with the management and may request that specific improvements are made.

Broadly speaking, however, the supervisors have found that internal control and board involvement are relatively good. Mr Norgren says: "We are rather pleased. We feel that we have achieved some of the ambitions which we set in 1993-1994."

While the economic situation, and with it the financial services industry, has stabilised, Mr Norgren sees new challenges constantly arising for the supervisors, especially with regard to new financial instruments. Sweden has had "bad cases, but not cases bad enough to destabilise the system," he says.

A case in point concerned swap arrangements made by Skandinaviska Enskilda Banken to limit the damage done by losses incurred by a Luxembourg-based property subsidiary, Luxonem, last year. The supervisors insisted that the swaps were valued in a way which took market values into account.

The action made a damaging dent in the recovery in early 1995 when the bank was struggling back into profitability after several years of severe losses, although in Mr Norgren's view the Luxonem case "was a credibility thing for the bank rather than a thing which could upset the bank itself."

Meanwhile, Mr Norgren surveys a scene which has changed radically in the course of a few years. "New banks are opening. There's much more competition. It is all magnificent - good for the consumer - but there will be a tomorrow. I think there is probably an excess supply of financial services in relation to what people demand, and this is a worry, although not from a stabilisation point of view. But there will be closures of enterprises that are not profitable and it is important to see that there is a soft landing," he said.

Servicing the national debt: by Hugh Carnegie

Lender sentiment shifted

A sense of having weathered the storm is palpable among Riksgälds Kontoret officials. Now they are able to concentrate more on smoothing out the debt profile

At times over the past two years, the task of funding Sweden's public debt - until recently one of the fastest-growing in the western world - was an unenviable one as the lending markets began to wonder aloud whether the country could cope and interest rates ratcheted ever upwards.

But towards the end of last year, things changed. "Suddenly we felt like bees flying in a field of many blossoms," recalls Mr Thomas Franzen, director-general of Riksgälds Kontoret, the national debt office, with a poetic flourish. What made the difference was a shift in sentiment among lenders who became persuaded that the Social Democratic government's tough fiscal medicine was finally bringing the yawning

budget deficit under control - and a healthy flush of growth in the economy, which expanded by 3 per cent in 1995.

The turning point came not a moment too soon. Sweden's central government borrowing requirement zoomed to almost SKr200bn in 1994, comfortably more than 10 per cent of gross domestic product. It approached SKr150bn in 1995.

As Sweden's crisis coincided with worldwide turbulence in bond markets, the country's association with the volatile "high yielders" was doubly potent. "A lot of investors withdrew from the Swedish market," says Mr Franzen. Interest rates climbed to giddy levels, with long bond yields at one point in early 1995 showing a spread of more than 400 points over benchmark German rates.

Mr Franzen says his office was helped over the crisis by two factors: a surge of buying of Swedish paper by Japanese institutions and the local retail market, where Swedes were saving heavily after a borrowing binge in the 1980s. And when western institutional investors came back onto the market in the second half of 1995, re-emboldened by the fiscal and macro-economic

outlook, Sweden's borrowing needs had begun to diminish significantly. As Mr Franzen suggests, there was suddenly plenty of sources available for funding. Latest estimates by the Riksgälds Kontoret see the borrowing requirement in 1996 dropping by SKr15bn compared to earlier estimates, to a SKr50bn-SKr60bn range, thanks to the rigour of the government's budget savings programme and higher-than-forecast tax revenues.

The total outstanding central government debt the end of April stood at SKr1,370bn - back on a downward path. Of this year's borrowing total, the debt office plans to borrow SKr20bn in foreign currency. Gross foreign currency borrowing this year will reach SKr75bn - of which SKr55bn has already been completed. The portion of this total debt held in foreign currency has declined slightly from more than 30 per cent to 29 per cent.

On the bond front, the changing situation has also shown considerable benefits. For a start, yields have tumbled. At the time of writing, the yield on 10-year treasury bonds stood at just under 8.5 per cent, compared with more than 11 per cent a year ago.

The spread against German bonds is down to 200 basis points and Mr Franzen says that this remains too big.

The change in climate has allowed the debt office to show its muscle in another way, however. It is placing an increasing amount of debt through index-linked bonds - something of a breakthrough for Sweden which in the 1970s and 1980s was one of Europe's most inflation-addicted nations. Index-linked bonds, first introduced in 1994, accounted for SKr2bn of the SKr15bn bond issues in April.

The debt office has five different index-linked instruments outstanding. The latest is a 24-year bond paying an annual coupon of 4 per cent.

A sense of having weathered the storm is palpable among Riksgälds Kontoret officials. Now they are able to concentrate more on smoothing out the debt profile, which contains a steep maturity peak at the end of the century. Bonds worth some SKr130bn will mature in 1998, with heavy commitments recurring through 2005. The debt office is working on switching a chunk of these commitments into new, longer instruments - including index-linked bonds.

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